

*Islamic Business and Finance Series*

# **A HISTORY OF INTEREST AND DEBT**

**ANCIENT CIVILIZATIONS**

Edited by

Murat Ustaoglu and Ahmet Incekara



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# A History of Interest and Debt

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With the spread of interest-based transactions, major problems such as inequality, poverty and debt-based slavery have emerged. Those who practiced professions such as usury have, despite the negative connotations attributed to them, contributed extensively to the construction of the conventional financial system in the global economy, suggesting that the core concepts in this practice need to be analyzed in greater depth and from a historical perspective.

This book analyzes the evolution of interest-bearing debt transactions from ancient times to the era of Abrahamic religions. In modern times, interest is strictly prohibited by Islam, but this book demonstrates that it is a practice that has been condemned and legally and morally prohibited in other civilizations, long before Islam outlawed it. Exploring the roots of this prohibition and how interest has been justified as a viable practice in economic and financial transactions, the book offers deep insight into the current nature of finance and economics, and the distinctive features of Islamic finance in particular and enables researchers to further delve into a review of interest-free financing models. Islamic finance, or alternative financial methods, have become extremely popular particularly in the aftermath of global financial crises, suggesting that they will attract further interest in the future as well.

The book is primarily aimed at undergraduate and graduate students but, as it avoids the use of technical jargon, it also speaks to a general readership. It will appeal to those who have an interest in financial history, particularly the history of debt as well.

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Ancient Civilizations

Edited by  
Murat Ustaoglu  
and Ahmet Incekara

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Dedicated to my father, Turgut Ustaoglu

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# Foreword

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The evolution of faith in the history of religions is at least partially attributed to the innovative ideas and revolutionary propositions in the aftermath of reform movements associated with social dynamics and upheavals. The reformist ideas and thoughts that became popular once the old-fashioned assumptions started to decline often led to debates and controversies. One such case is the foundation of Protestantism by Martin Luther who, in response to the erosion of Catholic faith, publicized his own arguments in Ninety-Five Theses, provoking a huge transformation in the history of mankind. I remember reading in a book years ago something attributed to Adam Smith, renowned thinker of capitalism, which argued that what we call money is just about belief. In fact, Max Weber also concurs with Smith and stresses that faith creates dynamism, which fosters capitalism.

In contemporary times, on the other hand, monetary transactions, rather than being a matter of faith, are driven by primary elements that determine the lifestyles of the societies, their emotional reflections and attitudes. Sometimes I tend to think that had he lived, Adam Smith would admit himself wrong because today, economic power is considered an existential issue. To this end, economic power transformed itself into a commodity and gained a rich content that accentuates different aspects in addition to its function as means of exchange. Money and money-like instruments, as a small portion of this wealthy content, generated anticipation at least in a theological sense to take the interest-bearing debt transactions to a legitimate ground. This dramatically and irrevocably changed the course of history. As detailed in this study, the interest-bearing debt transactions that have survived throughout the history left indelible impacts upon the social lives of a number of civilizations. Interest functioned as an economic tool, but it also served as means of exploitation. No religious or social constraint including the strict position of Islam was ever able to prevent the popularization and spread of the interest-based transactions which adapted themselves to the changing social and economic circumstances. Economic systems were mostly built upon different aspects of this useful tool.

The heavy load generated by the conventional banking system and derivative markets built upon the interest-bearing debt transactions made different societies and nations suffer. The capitalist system which attached different meanings to money other than means of exchange produced economic crises that repeat themselves on a regular basis. The social and economic cost associated with these crises becomes unbearable. Particularly income inequality now even threatens the conventional system that generated it in the first place. At that point, the monetary transactions had to be performed through fairer economic systems and the social dynamics had to consider a just welfare distribution. This was to be done by offering alternative solutions to the factors that negatively affected income distribution. It is promising to witness emergence of such alternative solutions in recent years.

BİREVİM is one of the institutions that presented itself as an alternative model to the existing financial outlook which undermines the societies of our time. It makes a strong claim and appearance to become a viable alternative proving that just distribution is a possibility thanks to a model based on savings in order to meet the basic economic needs by reliance on interest-free financing methods and instruments. BİREVİM, acknowledging that the interest-free financing should become an alternative to the conventional models, does not confine its vision to economic activities alone. In order to contribute to the common values of humankind, it also commits itself to supporting scientific and scholarly endeavors. By its support for this study focusing on the social issues caused by the interest issue, BİREVİM seeks to underline this mission.

*The End of the World as We Know It*, by Immanuel Wallerstein, foresees a transformation on the future of the economic order. This comprehensive study represents a small step toward turning Wallerstein's prediction into a glimpse of hope. I would like to offer my thanks to those who contributed to this book and wish that it would make a genuine contribution to the literature and to the readership as well.

**Murat ÇİFTÇİ**  
Chairman, BİREVİM

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# Preface

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The nature of debt transactions started to change after the emergence of areas nearby the temples in the ancient civilizations as centers of human settlements. The clerics were particularly interested in the interest-bearing debt transactions because of the profits involved. For this reason, in addition to the water irrigation and land ownership, the temples, tended to become part of the interest-based transactions as well. Interest has been a major source of income for the temples which did not hesitate to place emphasis upon religious arguments in an attempt to control monetary affairs. Loans on interest generated a huge amount of profit for the temples even in times when the debtors failed to repay. In such cases, the debtors were designated as slaves under the legal rules of the time. Considering that debt slavery caused serious social problems, some legal solutions were offered in an attempt to address the repercussions of the practice of interest. These remedies included introduction of restrictions applicable to the interest rates and even complete prohibition of the practice. However, despite all these efforts, the practice remained widespread and popular in the ancient world, large empires and small city states included.

The social problems that interest-bearing debt transactions caused were sometimes so dramatic that they even led to the collapse of a whole state system. Some historians refer to the usury as the root cause of the fall of the Roman empire, which held the shores of the Mediterranean under its control. As a result of the practice of debt slavery, the number of slaves surpassed the number of local people in Italy where the poor segments of the society, crashed under the devastating impacts of the loans on interest, revolted against the central authority, thereby accelerating the collapse of the state.

The situation was not much different in Ancient Greece where the poor people were defeated in their economic battle against the class of the nobles. The disparity among the classes was further deepened by the loans on interest, and thus the nobles established political control as well, exercising their power associated with their ability to govern the interest-bearing

debt transactions. In Ancient Greece, temples were also the main actors governing these transactions and they collected monies based on a variety of justifications and gave these funds in forms of loans to the people at very high interest rates which eventually caused dramatic social problems. Similar problems were also experienced in the ancient civilizations in Asian continent. Apart from some vague moral principles, the local religions which had the masses under their influence introduced no religious or legal ruling on the loans on interest. The clerics, emphasizing the moral principles, based their arguments on what the caste system dictated which determined the scope and nature of the interest-bearing debt transactions in the ancient Asian communities.

Why this book was written? The interest ban appears to be where the doctrine of Islamic economy and the conventional finance disagree. However, there are only a small number of studies focusing on this matter in details. The aim of this study is to fill this void. While deliberating on the methodology during the research, I realized, after reading the primary sources on the subject, that we are actually paying attention to a very ancient problem. The interest issue has been and is still a very popular problem that will always spark heated debates. Embarking upon research on such a delicate and popular subject matter was exciting; but it also led to some hardships as well.

One major hardship was finance. It is always a significant challenge for a scholar to secure a proper funding for his/her research. It is not easy to conduct high-quality research without adequate amount of financial support. The decline in the amount of public funds reserved for the scholarly researches is now a visible problem in different parts of the world. Developed nations allocate larger amount of funds for such works because of the awareness that research is the engine of economic development. However, this is not the case for many developing nations including Turkey where scholars have to spend utmost efforts for funding their research.

Universities are also where scholars will most vividly experience the repercussions of lack of sufficient funds. Burton Clark, in *Entrepreneurial Universities*, suggests that this could be turned into an opportunity and argues that the universities should pay attention to securing funds from outside suppliers. Such sources will generate additional leverage for the researchers who would be able to channel their energy into less-researched areas. But not all disciplines encounter the kind of problem Clark refers to; particularly technology-oriented fields enjoy the luxury of attracting large amount of funds to be allocated for research. Social sciences, however, suffer from insufficient amount of financial support which even becomes a chronic issue in countries like Turkey where disciplines of social sciences do not get what they deserve. This is particularly discouraging for young researchers. It should be noted, however, that economics and theology, along with other social science disciplines, have contributed a great deal to the development of



Islamic Finance which can be seen as one huge gift of the Islamic civilization to the modern world. Despite this, universities and public institutions are reluctant to support scholarly efforts and initiatives in this particular field.

This is why I would like to acknowledge in the strongest terms possible the support extended during the preparation of this study. I also offer my thanks to the researchers who contributed to this work, to Murat Çiftçi, the chairman of BİREVİM, Mahir Orak and Mücahid Karabalık who did their best to overcome problems and hardships we encountered during the research process, as well as to Prof. Dr. Ali İhsan Yitik and Fatmanur Peçe who also made contributions to this study. Interest-free financing is one of the most significant alternative solutions by the Islamic civilization in the modern age. I wish that this work will contribute extensively to the literature on Islamic economy.

Murat Ustaoglu  
New York, 2020

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# Introduction to interest and debt

*Murat Ustaoglu, Halil Şimşek and Servet Bayındır*

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Compound interest is the eighth wonder of the world. He who understands it, earns it ... he who doesn't ... pays it.

Albert Einstein

## Introduction

The quote attributed to Einstein best explains the sphere of influence of financial instruments. Despite all arguments, interest is the most important tool that promotes and facilitates monetary debt. Even though many civilizations and religions have adopted a critical stance against it, it is not possible to isolate interest from economic transactions. This reality points out to an interesting dilemma: how does interest become an integral part of economic life despite strong opposition and criticism? What dynamics have played a central role in integrating interest with social and economic activities? What are the cultural, religious, legal and economic causes? If interest is unavoidable, why? Answers to these questions will help us clarify the social dynamics of the interest-bearing debt interactions. It is not an easy task to offer a conclusive solution because even those who argue that interest does irreparable damage to the social life have no clue of how to replace interest. For this reason, an analysis of how interest has emerged and been transformed and under what conditions deserves a closer examination.

Regardless of how it is labeled, it is essential to analyze this transformation/evolution in order to understand whether or not interest is actually inevitable from economic climate. If this analysis reveals that interest has emerged in a certain period of history under certain conditions, it will at least mean that it is possible to avoid interest. Therefore, such an analysis would reveal both the conditions that created the interest and those that would possibly eliminate it. Additionally, such an analysis will also unveil the motivations of the mechanisms, institutions and actors that have made interest a general tool of application in economic transactions and identify

the methods they have relied on. Thus, identification of these motivations and methods is crucial to alleviate the repercussions of interest-bearing debt if they bear some undesired outcomes.

### **The interest-bearing debt: conceptual framework**

Almost in all religions, cultures and ideologies, interest-bearing debt is strictly prohibited. However, despite this clear stance in original sources, unlike many other similar prohibitions, currently there is no commonly held agreement on the interest. For instance, gambling or adultery, even if legally allowed, have always been condemned in all cultures and civilizations. But this is not the case with interest which raises conflicting stances within people. We believe that the reason for this state of confusion is lack of a commonly accepted definition of the notion of interest and of a strong justification for its prohibition.

Despite lack of a working definition, interest has been a tool to exploit the wealth and prosperity of the societies. The exploiters channel the economic and political power they have accumulated to different walks of life including religion, philosophy, education, art and cultural life where they maintain their domination. Due to the lack of definition and the ambiguity surrounding the term, interest has been presented in political and economic literature as an inevitable and indispensable economic tool. For this reason, how religions approach the concept of interest and its negative impact upon economic life have become a matter of debate; in some arguments, it is presented as a fundamental instrument of economic system without making any reference to its destructive impacts. In other words, practice of interest-bearing debt was justified by a broad argument that interest is a necessary component of economic activities and the entire economic system.

Most civilizations of the past, relying on religious arguments and precepts, have adopted a negative stance vis-à-vis the practice of interest; despite this objection, interest-bearing debt has been legitimized by similar approaches that place emphasis upon the allegedly indispensable role of interest in economic life. Scarcity problem is the basis of economic life; Attali (2014) argues that the first economic-political lesson that the Bible teaches is that desire creates scarcity, not the other way around. In the satisfaction of desires by economic goods, there are limited economic options. It is either labor and reason will be used for further consumption or the accumulation of others will be borrowed. There is general agreement over the legitimacy of the first option, but there are conflicting views on where to draw lines in the borrowing options because what motivates the lenders is also the major source of the problem. Theological teachings that often promote moral principles including solidarity and charity fail to generate strong motivation that will be sufficient for financing economic activities. The main factor that led the economic actors to maintain debt is revenue

made out of interest despite strong objection by monotheist religions to the practice.

A mainstream economic justification for interest refers to the unearned revenue of the money. French statesman Turgot, a leading Physiocrat, developed a whole new approach to the issue in 1750s. Turgot's theory underlines that when lent, money which ensures transfer of property of the land that generates unearned income should attract a certain amount of interest at least equal to the amount of that income. In a sense, Turgot maintains connections between interest and unearned income and thus laid the ground for the legitimization of interest in modern capitalism. Additionally, however, he also stressed the need for state intervention in determining the interest rate (Groenewegen, 1971).

## Theory of interest

Despite efforts since ancient times to come up with a common definition of interest that applies to economic transactions, no universal definition has so far been proposed. There are still a variety of definitions on the concept of interest; this diversity is also visible in its conceptual framework, types and legitimacy. On the one hand, interest is despised and discouraged because it contributes to social inequality and does harm to the existing social order; on the other hand, it is justified because it plays a role in transformation of economic structure and provision of capital. A proper definition of interest is a matter of importance to discuss its legitimacy.

The religious, philosophical and economic aspects and circumstances of the time have often shaped the approach employed toward in the concept of interest in different segments of history. In ancient times and the medieval age, interest has been a matter of discussion in respect to its social, moral and religious aspects whereas the changing socioeconomic environment made a matter of economic debate due to the increased need for capital (Pıçak, 2012). Plato (B.C. 427–347) underlines that interest is of immoral nature, adding that due to the economic and social outcomes of the practice, the structure of the ideal state shall be impaired; for this reason, he favors its prohibition (Gül, 2001). Aristotle (B.C. 384–322), as an inspiration of the approach that money does not generate money, suggests that money is only a means of exchange and that use of money as a means of revenue is an act that deserves condemnation (Aristoteles, 1975). The views of the thinkers and philosophers who oppose the concept of interest laid the ground for the emergence of a notion that is referred to as “absolute condemnation” (Işık, 2006).

In Medieval times, Thomas Aquinas (1225–1274), an Italian Catholic thinker who initiated a new era with novel ideas on the practice of interest, made a distinction between consumption and use, justifying the excessive amount paid in the debts associated with use. This was followed by the

emergence of simple and compound interests which led to a separate discussion; based on this discussion, a distinction was made between lender on simple interest and a usurer who asks for compound interest (Kuran, 1997).

In modern times, Martin Luther and Jean Calvin pushed the boundaries of the church and the established orthodox approach and proposed ideas to bend the interest ban. These two famous thinkers, although suggesting that interest is something that should be opposed in normative and moral terms, paved the way for its justification under certain conditions. Luther and Calvin opposed Aristotle's doctrine and argued that the merchants who borrowed money make profit out of it and for this reason, the capital lenders should take their shares as well (Akdiş, 2015). Particularly Calvin, noting that not every type of interest should be banned, supported the idea of promulgating Anti-Usury Laws (Pıçak, 2012). Interest has been redefined as rent of the capital after the arrival of mercantilism that dominated the field of economic thought in late modern era; proponents argued in this period that the low interest rate specified by the state was both useful and legitimate (Demirgil & Turkay, 2017). In late 18th century, in his seminal book, *The Wealth of Nations*, Adam Smith (1723–1790) defined interest as revenue of capital instead of revenue of land and laid the ground for the classical theory of interest which focused on the time value of the interest.

New theories advanced to challenge the classical theory of interest were influenced by the circumstances associated with the new economic style in the modern age. For instance, Alfred Marshall (1842–1924) referred to interest as the price of waiting period, not of the capital (Marshall, 1920). Like Marshall, Eugene von Böhm-Bawerk (1851–1914) relied on time preference to explain the concept of interest, adding that the monetary value of a commodity at the present time is not equal to its value in the future, thus concluding that the excessive amount should be considered legitimate (Seyrek & Mızırak, 2009). John Maynard Keynes (1883–1946), on the other hand, noting that interest is a monetary phenomenon and that the interest rate is determined by money supply and demand, offered a different perspective. According to Keynes, interest is the price of the money holder giving up having it in cash (Keynes, 2010).

### **Interest-bearing debt in ancient civilizations**

Economic historians believe that interest-bearing debt is as old as the history of humankind. The initial findings on the presence of such transactions refer to the permanent lifestyle in the aftermath of agricultural revolution. Data retrieved from tablets reveals insights and information on the evolution of interest in the ancient civilizations. The way interest-bearing debt has been treated varies by geography, culture, religion, political and economic climate; however, it has been discouraged in societies where moral values were promoted. Yet there have been differences in the definition and practice

of the interest in different societies. Interest-bearing debt was subjected to simple norms in ancient civilization where repayment was mostly scheduled according to the harvesting times. The Interest-bearing debt became popular particularly after the invention of money-like instruments in economic transactions. Now it is possible to offer a more comprehensive definition of interest thanks to the use of money in economic activities; but there are still visible disagreements. In general, interest can be defined as an addition or extra to the original amount of the loan over the time. Even the modern economies suffer from repercussions of the practice of interest. For this reason, it is useful to review the evolution of interest-bearing debt with reference to ancient sources.

The economic climate in the ancient ages was appropriate for the spread of interest-bearing debt. For this reason, a huge number of people from different backgrounds have been suffering from interest-bearing debt in different ages. The local people in general received loans for consumption purposes whereas the traders relied on long term loans on interest for their commercial activities (Ildız, 2013). As interest has become widespread, the interest rates also become diversified; the rise in interest rates put the local people in a difficult position as they experienced troubles with repayment which led to emergence of debt-slavery. In response to the growing problems associated with the practice of interest, political authorities introduced solutions including introduction of maximum interest rate, legal penalties that applied to the situations of the repayment of the consumption goods, requirements that debt should be concluded in the presence of public authorities, scheduling the mortgages according to the harvest times, limiting the debt-slavery to three years, stipulation of participation of the spouses in the concluding of the debt contract and restrictions to the debt transactions concluded by the temples. However, these attempts have rarely worked because of the social, political and economic conditions specific to the ancient times. On the other hand, even the modern societies have been unable to properly address the problems associated with high interest rates.

Most of the tablets excavated in different parts of the world, particularly the Mesopotamia, are borrowing bills which offer insights on the economic life of the ancient times. References to fixed interest rate, changing interest rate and types of interest in the tables give the impression that the interest-bearing debt enjoyed a broad application in the ancient societies. The changing interest rates with the loans offered by temples were particularly important as they caused serious economic problems for those who failed to repay their debts. Ancient Mesopotamia was a typical agricultural economy in many respects. For this reason, in rural areas, local people used consumable products such as wheat, oat, bread, butter and honey as means of repayment whereas those who lived in urban areas relied on metals for this purpose (Mews & Abraham, 2007). In this era where the money was in its primitive form, the society generated money for the economic

system through production. The consumption goods which functioned as money were also popular means of repayment for the interest-bearing debt (Ildiz, 2013).

Means of payment have varied according to time and region. Valuable metals such as silver were used as means of payment in commercial agreements and borrowing bills whereas grains were mostly used in rural areas. The changes in the grain productions due to the natural and climatic conditions led to fluctuations in interest rates. The public authorities, seeking to take the interest rates under control, made interventions in an attempt to standardize the methods and means of payment (Homer & Sylla, 2005). Interest rates were the most influential tools in such attempts; public authorities introduced restrictions to the interest rates applicable to the loans offered by the temples in order to address the issues associated with the interest-bearing debt. In most cases, however, these efforts failed. The temples, the most important fund-providers of the time, were well-organized structures in the economic sphere. They did not hesitate to impose punitive measures against those who failed to repay their debts. One of these measures is the enslavement of the debtor. Such practices led to spread of the debt-slavery within the society and created distress. In some instances, the local people, rioting against such practices of injustice, posed a threat to the public authority. The temples held authorities and powers to influence the economic transactions including those relevant to the interest rates. Particularly in early times, the temples were able to interfere with the interest rates in order to protect their privileges (Ildiz, 2013). They served as the central banks of their times; the temples, the backbone of the economic order in Mesopotamia, were also influential in the silver system. The silver has become an important means of exchange particularly after the accumulation of silver metals through invasions. And the temples held the largest stock of silver under their possession.

The temples were successful in financial transactions simply because they performed roles similar to those played by modern financial institutions. The employees at the temples were well-educated and privileged members of the society; thus, they were able to execute the roles and functions that required experience and knowledge. For this reason, the records of the borrowing deals were mostly kept in the temples. The role they played as keepers of the books made the temples even more crucial and more powerful. Statements inscribed on the borrowing bills reveal that the temples asked more. When the high interest rates attracted reaction among the public, the temples offered arguments in reference to gods, suggesting that the wishes and orders of the temples as the abodes of gods on earth should be honored by the general public. These arguments further suggested that the actual interest rates were determined by divine powers (Eagleton & Williams, 2011). The temples, exploiting the religious beliefs of the people, made fortunes out of the high interest rates they charged for the loans to the general public.



The strengthening of the public authority in the times of Babylonians and Assyrians curbed the economic power of the temples to some extent. The power struggle between temples and the palaces resulted in introduction of restrictions to the interest rates (Ildiz, 2013).

The Roman empire is one of the ancient societies that were affected by the interest-bearing debt which led to serious problems in the empire; the unjust distribution of welfare due to the loans on interest created a very unfair economic environment that laid the ground for the fall of the Roman empire. The rulers who accumulated extreme amounts of wealth needed extensive labor to cultivate the arable lands. The need for experienced workers for the cultivation of the lands under the property of the nobles created new social classes. Those who leased the lands of the nobles made a living relying on what was left from interest payments. However, debt-slavery became a norm due to the high interest rates and the spread of loans on interest (Diakov & Kovalev, 2015). Debt-slavery was further promoted after the addition of lands seized in military occupations which created further need for labor. One easy way to meet this demand was enslavement of the impoverished people (Tanilli, 2017). Historical records indicate that number of slaves sometimes exceeded number of free people in Rome.

The rulers in the empire which experienced a fairly dynamic economic environment often resorted to such measures as imposition of a ceiling interest rate, interference with the interest rates and pardoning the debt on interest (Sallust, 2007). However, these measures failed to offer a lasting solution to the problem. When the government lost control over the economy, overall collapse was experienced; as a result, the usurers became richer while the debtors, suffering from the brutal interest practices, held riots against the central authority (Finley, 2007). The central authority, focusing on power struggles over the throne, was unable to address the riots and eventually had to delegate most of its powers to the local rulers. Feudal units soon left the Roman empire and declared their own independence. In this way, interest-bearing debt contributed to the dissolution of the Roman empire.

Despite objections renowned thinkers of the time including Aristoteles to the practice of interest, Ancient Greece was also overwhelmingly affected by the repercussions of debt on interest. The nobles held control over such loans which negatively affected the economic and social harmony of the society. The collapse of the strong clan system led to greater tension between the poor people and the nobles. The poor people had to hand over their lands to the nobles due to the interest-bearing debt. The nobles gained further control over the political authorities; the interest-bearing debt further contributed to the practice of debt-slavery for which rules were even more powerful than those implemented in Mesopotamia (Erol, 2007). However, the state was unwilling to regulate the markets of interest-bearing debt (Elbir, 1952). Failure to take action toward addressing the loans on interest led to exacerbation of the debt-slavery issue (Sagstetter, 2013). Palliative

reforms, focusing on the interest rates rather than its complete prohibition, did not generate lasting solution.

Interest-bearing debt were also a social and economic issue in the Far Eastern civilizations and communities as well. The cultural fabric embedded in the daily life of the Hindu and Buddhist societies deeply affected the economic climate as well. The faith system which divided the social life into layers and castes also served as reference for the social stratification. The scripts offer details on how to divide the society; according to this division, the people are classified into different castes including clerics and scholars, princes and soldiers, merchants, and slaves and workers (Adam, 2015; Erdoğan, 2015). This caste system was the main source of injustices in the society. Despite criticisms directed against the system, the karma belief contributed to its survival for a very long time. The caste system also had its impacts upon the practice of interest in Hindu and Buddhist regions. The Hindu culture did not allow addition of interest to the original amount; however, the clerics, in practice, discovered a middle path (Satyarthi, 1968). Members of the Vaishya caste, mostly merchants, were allowed to receive interest on debt. Additional privileges regarding interest-taking were also recognized to this caste (Mukerji, 1958).

Ancient era Vedas did not allow interest-taking by the clerics. Guatama, one of the Smritis drafted in later times, stressed that the Brahmins may not perform usury as a professional engagement because of their status within the society. The theological sources noted that the king should be responsible for the needs of this caste. However, the interest ban has been altered over the time; for instance, the clerics were allowed to take interest in times of distress (Sharma, 1965). Similar privileges were further recognized to members of other castes; as a result, interest-bearing debt gained prominence among the caste transactions. But the spread of interest led to other issues; interest rates were different in different castes. The members of the lower castes had to pay higher interest rates which made the poor sections of the society even more miserable.

The chapters in this volume will analyze the evolution of the interest-bearing debt in the ancient civilizations. The root causes of the interest-bearing debt in a wide range of ancient civilizations ranging from Sumerians to the mysterious Far Eastern civilizations, the problems these loans caused, solutions offered to address these problems and the outcomes of the efforts shall be evaluated. Toward this end, the book relies extensively on a descriptive research method in an attempt to offer a general outlook of the subject matter and to make the audience familiar with the discussions.

## **Conclusion**

Interest-bearing debt was widespread in the ancient societies. In most cases, the local people had to receive loans for their instant consumption; but due

to the economic conditions, they often failed to repay the loans on interest. Because of these hardships, the amount of debt reached to alarming levels; as a result, the debtors had to seek the mercy of the clerics, the usurers and the nobles. The practice of interest led to serious problems including debt-slavery, which created social upheaval, the people suffering from the repercussions of the practice of interest rioted against the rulers who had to then take measures in order to alleviate these problems. The public authorities introduced a wide range of solutions, including absolute prohibition of interest, introduction of ceiling rates and interference with the interest rates. However, none of these attempts worked and the practice of interest became even more popular. The ancient civilizations, viewing the interest-bearing debt as part of the economic and social life, never banned the practice of interest altogether; instead, they relied on palliative measures for short-term solutions.

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# **Dynamics of social life in ancient Mesopotamian civilizations as historical precursors of interest/riba within the context of religion, politics and economics**

*Murat Ustaoglu and Betül Mutlugün*

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### **Introduction**

Mysterious theological narratives were the main reason for the passion of the European archeologists to conduct the first excavations in Mesopotamia in the 19th century; the archeologists were eager to solve the mystical tales in holy scripts; individual efforts were followed by collective initiatives, including those held by British Museum and Louvre, leading museums and exhibition centers in Europe. Larger amounts of funds were allocated for these initiatives, one of which was work by George Smith nearby Nineveh in 1872; the work revealed some parts of a mysterious narrative which resembles with the Noah's story in the Old Testament.<sup>1</sup> A British newspaper pledged to make financial support to unfold the remaining parts of the story. Thousands of similar attempts have been made to discover the traces of magical civilizations of the ancient times; one of these civilizations, also known as the lost civilization and as the ancestors of the modern Middle Eastern and Mediterranean civilizations, was named Sumerians (Demirci, 2017; Pollock, 1999). The Greeks called this area as Mesopotamia, a combination of mesos (between) and potamos (river) which literally means land between two rivers whereas the Egyptians referred to it as nahanira and Muslims as jazira (Memiş, 2007). The excavations and archeological works provide valuable information on the ancient civilizations (Cipolla, 2015). Judaic, Christian and Muslim cultures bear resemblances with the economic, political, legal, religious and cultural values of these civilizations. For this reason, a review of the interest-bearing debt in Abrahamic religions requires a preliminary analysis of the social background inherited from ancient times.

### **Relationship between religion and society in ancient civilizations**

Established conviction suggests that people, when encountering something that they are unable to comprehend or control due to the restrictions and

constraints they suffer from, seek refuge in authorities they view as source of might. For this reason, most societies in the history attempted to maintain a metaphysical bond with center of might that transcends their boundaries (Tümer, 1986). This has been particularly the case in Mesopotamia due to the climate conditions; this region has hosted different strands of faith, ranging from worshipping sub, animism, evolution from polytheism to monotheism and other local creeds. The gods of these creeds and faiths commonly feature anthropomorphic characteristics. In some myths, some of the gods fall in love; they are given birth, they get mad and drunk. In most cases, the rulers maintain kinship with these gods to reinforce their authority (Ateş & Ünal, 2004). This semi-human god perception which has never left indelible marks in the Mesopotamian faiths is fairly common in ancient Egypt. Political authorities have frequently generated theological arguments that would expand the sphere of power by reliance on this sort of perception.

The common dynamics in the emergence of religions (i.e., the need to explain what is considered unexplainable by reliance on the material elements) played role in Mesopotamia, laying the sociological ground for polytheism (Uncu, 2011). Polytheism fails to appeal to the minds of the contemporary people who are now able to trust on the secular way of thinking mostly because of the scientific and technological advances. However, the ancient societies had a very stable and poor technology; there has been almost no significant technological advance in the ancient times in this region (Taş & Günay, 2015). However, the experience in the industrial revolution is pretty different. The extensive use of empirical analyses in solving the laws of nature undermined the Orthodox faiths that were dominant in ancient times. Due to the advanced technology generated by scientific developments, the communities of the past were able to address what they had considered unexplainable; this inevitably undermined the importance of god in the daily interactions. Unaware of the norms of the positivist paradigm, the ancient civilizations enjoyed some sort of mental comfort; for this reason, no significant challenge to religious authority has been observed in this period. Theological rules were applicable to all aspects of daily life, creating a web of rules and taboos that were influential in social interactions (Karahöyük, 2013).

Religious rituals and major archetypes have been perceived as source of inspiration that shapes all spheres of life. Demirci (2017) attempts to explain the religious ground formed in the minds of the people by reference to three major archetypes, *metamorphosis*, *magical etiologic* and *ab origina*. The metamorphosis archetype, relying on the thoughts and views that delve into the nature of the existence in the universe at a time when there was no reference to scientific observation and empirical conclusions, is a reflection of the mentality of the ancient man. This archetype that maintains linkage between man and universe holds that the entities in the universe share uniform life

domains. Demirci (2017) who views the archetype as extension of the unity in universe compares it to an imaginary pool where all models of existence are transformed into each other. This archetype is the source of all faiths referring to living things, gods and avatar motives that change form. The traces of this archetype are to be found in many rituals and traditions of the ancient religions and civilizations.

It could be argued that *etiologic archetype* is the most magical way of reflecting the physical conditions and the cultural codes that shaped the religious environment in ancient Mesopotamia. The primary need of the people who suffered from natural disasters very frequently was to offer a plausible explanation; because of lack of scientific answers to inquiries as to why and how these natural disasters took place, mythological arguments were often employed. Causality was often maintained when acts were attributed to godly or semi-godly entities or metaphysical world of ghosts and evil spirits. *Ab origina* is the last archetype that solidifies the linkage between the mindset of the ancient people and the past. This archetype, viewed as the main reason for the conservative attitude of the time, can be considered as natural outcome of the etiological perception of the universe which reflects longing for the past. Because time when the gods shaped the whole universe before creating man is considered the most ideal period, all rituals have to be consistent with the norms of this ideal era. This is why no alteration in rituals is allowed.

Every religion needs physical temples of its own on earth to impose its rituals and authority. For this reason, temples are indispensable parts of a faith or religion (Eser & Kılıç, 2017). This also applies to the people of Mesopotamia who were able to exercise the norms associated with these archetypes. Without understanding the functions of these structures in social life, the political, cultural and economic attitudes of the local people cannot be properly comprehended. Every city hosts its own local gods, each serving different purposes and playing different roles; some of them are considered protectors of the city; gods that are attributed features of celestial bodies are generally regarded as living things; for this reason, a certain physical space is reserved for these gods and huge temples are built for their settlement. Local people held strong belief that the rulers were obligated to erect temples for the gods; the monks assigned to serve in the temples have over the time acquired a status of influence and legitimacy over the locals and even the rulers (Demirci, 2017). The mission of the monks is not limited to performing these rituals and administering the mass; they are also expected to tell more about the future, a role that affects the whole process of decision-making (Tanilli, 2017). The anthropomorphic gods inside the temples were made of precious stones and materials including gold, reflecting the importance attached to them. Festivals and rituals were held to honor these gods and food was offered to them by their followers (Pollock, 1999).

## **Temple state**

Given the broad authority of the temples, some scholars, noting their economic power and influence, refer to this order as temple state; the temples hold broad powers and authorities, including ownership of the arable lands and of the labor (Tanilli, 2017). Some researches present findings for privately owned lands. Absence of adequate proof to support the argument that temples holds monopoly of property weakens the arguments referring to ownership of vast lands by the temples. It should be, however, noted that some researchers oppose this view (Foster, 1981). Despite conflicting views, it is a reality that temples had visible weight on the economic life to the extent that they were sometimes in competition with the state.

Role of religion cannot be restricted to the heavenly needs of the people; a religion also serves as a source of synthesis between what is considered religious and cultural values. The impact of religion upon economics, politics, law and philosophy has always attracted a great deal of scholarly attention (Eser, 2014). For this reason, the relationship between religion and politics whose foundation has been laid in the times of the Sumerians is one of the factors that determine the boundaries of authority and power.

## **Water, state and politics**

The domestication of plants and animals in the history of mankind was followed by discovery of new means and mechanisms to exploit natural resources; advanced production methods contributed to the increased prosperity and welfare; the innovations Mesopotamians introduced in the field of agriculture and animal husbandry have become widespread in different parts of the world over the time (Günay, 2015). Childe (2006) focuses on the agricultural activities as a determinative element. People who have moved to a permanent lifestyle in connection with the increased amount of agricultural output now had more time to think about the mystery of life and to develop production techniques. This process was probably the most radical transformation that radically affected the evolution of humankind. Dramatic changes took place in different domains of life. The most significant point of reference for this transformation in the Neolithic age was religion which regulated and controlled all aspects of life (Karahöyük, 2013). Traces of significance attached to religion can be identified in many fields. For instance, urban areas had glorious temples exclusively dedicated to the gods.

As opposed to arguments by Childe (2006) that mankind moved to permanent life after the agricultural revolution, recent findings from the Göbeklitepe excavations serve as basis of opposite views. Schmidt (2012), promoting an opposite theory, notes that rituals for gods were part of social life and argues that first temples were erected. In other words, settlers decided to become engaged in agricultural activities long after their



permanent settlement. Collins (2014) also believes that people first built temples and then decided to settle permanently to take care of these temples. Only long after did they discover agricultural production (Eser & Kılıç, 2017). Conflicting views do not change the reality that the Mesopotamians, a typical agricultural society of the time, laid the foundations of one of the most advanced civilizations by effective use of the time generated thanks to the surplus product.

The climate conditions of this geography had determinative impacts upon the economic characteristics of the region (Conaghan & Smith, 2014). Most economic problems were associated with lack of water resources. Societies that were able to make good use of the freshwater resources succeeded to accumulate wealth. Ancient civilizations that left indelible marks in the history are those that were built around lakes or rivers where water supply was more than enough. The arid/semi-arid lands and the accompanying climate conditions of the geography most of which is not suitable for agricultural production and receives only 200 mm rainfall on an annual basis had determinative impact upon the economic characteristics of the region (Conaghan & Smith, 2014). The majority of the economic issues experienced in every-day life are directly relevant to the water sources that in many respects affect the life. Seventy-one percent of the globe is covered with water areas whereas the potable water resources are fairly limited.<sup>2</sup> History of mankind affirms that communities and societies that were able to use the scarce resources effectively have become rich whereas others had to endure serious sufferings and problems. For this reason, ancient civilizations have been founded nearby lakes or rivers where water supply was relatively sufficient.<sup>3</sup>

There is strong need for water in agricultural production. Regions with a moderate climate seldom face drought issues because they receive sufficient amount of rain. But Mesopotamia is not one of such regions. In ancient Mesopotamia, people, considering the climate conditions, mostly got engaged in agricultural practices in mid-fall and early winter. But even in these times of the year rain was insufficient, which was a problem leading to the discovery of methods for transportation of water from other areas. Because individual efforts were not viable to build water-processing facilities, collective initiatives were considered as a must. One other problem was frequent floods around Tigris and Euphrates, particularly as the harvest season approaches. This problem has been handled in several steps. First, a lunar calendar was developed to predict times of flood; second, drainage systems were built to change the course of water. This is briefly how the foundations of a central political authority referred to by Wittfogel (1957) as *state*, an entity that brings together and administers labor and expertise that is able to sustain huge irrigation projects, have been laid down. The observation that individual efforts would fall short to address growing social problems leads to perpetual demand for a permanent administrative authority.

Security was another area that led to the establishment of a central administrative authority. With the expansion of arable lands, security became a real problem because borders and agricultural areas had to be protected against potential attacks (Claessen & Skalnik, 1993). Tanilli (2017) attributes transition to central authority to desire for making better use of the irrigation systems, improving economic ties with other region, preserving the domination over slaves and protecting the expanding arable lands against external threats. Only temples were qualified organized entities that would successfully fill the authority gap in the transition period.

The common tenets of the polytheist Mesopotamian religions offered a useful basis for the temple administrations to maintain authority over the local people. Referring to the popular association of gods with heaven, Ateş and Ünal (2004) make mention of entities serving as the representatives of gods on earth, which exhibit features of a state. These are the first monarch entities that enjoy legitimacy in a theocratic political setting. Especially in ancient times, majority of the people tended to delegate the authority to private entities in times of crises such as natural disasters. This approach, an outcome of search for a collective solution, enabled the temporary administrative authorities to expand their sphere of influence (Huot, Thalmann & Valbelle, 2000). The temple priests, presenting themselves as the servants of gods and stressing that both abundance and scarcity is an act of god, used this opportunity well and acquired political power (Schmökel, 1971).<sup>4</sup> Even though initially political administration was in the hands of independent actors, the clerics have over the time acquired political power due to their roles. This era where the idea of sacred state emerged is viewed by Jacobsen (1939) as end of primitive democracy. Previously, popular assemblies and board of seniors, equipped with extensive powers, were responsible for the city administration. The assembly, particularly, had broad powers, ranging from delivery of justice to taking administrative measures, from naturalization to declaration of war.

Tanilli (2017) defines this era as military democracy where the sphere of political domination of absolutist regime has been expanded. One of the popular definitions of politics, relevant to economic production and distribution, is power struggle for the distribution of resources (Köktürk, 2011). In ancient societies, the marks of this political struggle are more obvious. Temple priests and rulers, two separate authorities at the center of political life that need each other, oftentimes had to agree on a power-sharing scheme. The rulers who built their legitimacy upon theocratic arguments and justified their rule by stressing that they are servants of gods on earth frequently referred to the religious arguments often monopolized by the temple priests. The combination of mythological culture of Mesopotamia and the theological arguments of the temples turned the priests into an elite class that watched over the ruling class. This special status also made the

clerics controllers of economic life as well (Evans, 1958; Pollock, 1999). Economy plays a huge role in terms of the strong involvement of temples in social life. Due to their institutional characteristics, they were able to expand their sphere of influence within the bureaucratic mechanisms. Because they trained clerks who held all the records, the temples were also able to make huge amounts of revenue and control the way the agricultural outcome is distributed. Their ability to organize large number of workers by reliance on religious arguments prove their extensive power to confront the political rulers. For this reason, they did not hesitate to fight bureaucratic establishment when secular rulers made decisions unpleasant to them. The temple priests who employed their political and economic power to maximize their interests laid down the foundations of the first secular state in the history (Ateş & Ünal, 2004).

### **Economy and trade**

Cipolla (2015) who criticizes historians for using the notion of revolution out of context refers to agricultural revolution as the harbinger of transformational process in ancient civilizations. Agricultural revolution led to radical transformations that deeply affected the ancient societies; particularly innovative harvesting techniques radically changed the nutrition habits. Beer replaced wine and many substitute products, such as olive oil-sesame oil, were offered in the market. Sheer production led to foreign trade, mostly conducted by vessels that used marine routes. The size of trade areas has been expanded by the use of Euphrates and Tigris. Established trade norms were developed to regulate interactions with other civilizations. An enhanced barter system was used in the economy. The value of the goods and commodities was determined by copper or silver, representing development of a primitive pricing model (Crawford, 2004). On the other hand, scholars such as Landsberger (1944) argue that coin has become a major mode of commercial exchange with the development of foreign trade. These innovative practices have swiftly spread over other parts and had spillover effect upon other civilizations.

Role of struggle against hard climate conditions has been huge in the reproduction of this innovative culture. Referring to the physical conditions, Wittfogel (1957) bases his *Oriental Despotism* argument on the political and economic development of water civilizations around the Euphrates-Tigris and Indus rivers. Sustainable welfare of the hydraulic civilizations in semi-drought lands depends upon socioeconomic conditions that are based on specific distribution of labor, focused on harvesting and require close cooperation. Because these conditions have not been fully met in ancient times, the overall agricultural productions remained relatively low. But still, transition to permanent settlement had a lasting and radical impact upon economic development (Falay, 1985; Renger, 2007).

Historical records indicate that Ur and Lagash, two major trade destinations, were coastal cities with accessible ports in ancient times. Scientists hold that there is sufficient evidence to prove geographical shift due to floods, natural disasters and tectonic movements in these cities. Crawford (2004) notes that despite climate hardships, the lands in the region were extremely fertile, so much so that people settled in these lands had no need for search food. Barley, corn, wheat, sesame and other similar products were harvested in these lands. In falls, the farmers inseminated the soil and harvested the outcome in spring and summer times. Pig, sheep, goat as well as gazelle were the main subjects of animal husbandry which was mostly performed in relatively arid lands that were not suitable for agriculture and farming. Threads and fabrics produced with the use of the skins and hair of the animals were further used in the weaving industry where mostly women were employed (Pollock, 1999). For this reason, emphasis was placed upon sheep breeding. Textile production was mostly held in relatively small workshops with nearly 1,000 employees under the administration of the temple and the palace. Archeological findings reveal that pottery was also a significant line of work; the pots made by experienced artists working in palaces and temples were the among the most frequently and intensively exported commodities (Crawford, 2004). The raw material of some ceramic parts excavated in that area as well as the motives on these parts confirm the overall conviction on the place of manufacturing.

Labor division and specialization in industrial products and labor-intensive manufacturing was first observed in highly populated areas. Traces of professional titles in tablets suggest the efficiency of Oikos economy, centered around the production and consumption activities of the *house*. Economic activities were held between small *private houses* of a few households involving core families along with few number of relatives and *large houses* owned by palaces and temples that were fairly active in the control and use of labor and workforce (Pollock, 1999). These two institutions, sharing political power, held the production done at workshops and houses under control. Due to systematic reasons, no significant economic growth was observed in the region for a long time (Oates, 2015; Pollock, 1999; Renger, 2007). The phases of economic development chronologically involved temple economy of ancient Sumerian era, the state economy of neo-Sumerian era and market economy of the Babylonian era. In each of these eras, production rise has been observed (Halla, 1978). Even though the economic characteristics of the aftermath of early period have been different by the time and by the region, in general, it could be likened to the contemporary market economies (Renger, 1994, 2007). In earlier periods, the palace and the temples had greater weight in the economy. The temples, seizing the surplus crop and holding it in their warehouses, further controlled the marketing of the products; this enabled them to maintain monopoly in the economy. Only products not manufactured by the temples and

the palaces were freely circulated in the market. As secular political mechanism gained power in political arena, the temples became less influential over the local economy (Graeber, 2009).

Due to weak labor market, the palace and the clergy were able to maintain stronger control over the economy. The rulers and the clergy, holding the property of the land, leased out the arable lands to the slaves and peasants. In most cases, the working conditions of the slaves and the peasants were almost the same; but still, slavery was a common practice. According to historical records dating from BC 3000, one-fourth of the people were slaves. Mostly the rulers and the clerics were owners of these slaves, holding their lives under full control. Similarly, research indicates that the clergy held the property of half of the lands in the same period (Tanilli, 2017). For the reasons stated above, labor market has not emerged for centuries. People who had to deal with extreme weather and climate conditions took their small share from the welfare and economic output that was determined by the ruling class and the clergy. In most cases, this share was limited to covering autonomous needs. Those who lived in this cycle faced a threat of ending up slavery. Taş and Günay (2015) attributes this vicious cycle to the economic structure built upon the labor class that lost its freedom.

Referring to lack of raw material as another economic problem in the region, Crawford (2004), relying on findings based on gravestones, argues that raw materials were processed and some of them were even subjected to serial production in the earliest factories of the world. Due to the climate conditions, metal and wooden materials were not manufactured because of which local people-maintained trade relations with other civilizations. The strategic location of the trade routes at the crossroads of the Eastern and Western civilizations contributed to the trade volume (Homer & Sylla, 2005). However, maritime trade was not much developed; naval vehicles running on human force only allowed trade in close distances (Taş & Günay, 2015). Oates (2015) notes that the surplus value produced in local economy was transported to other regions by use of waterways. Particularly Assyrians who placed emphasis upon foreign trade made a reputation of their own thanks to their trade colonies. Some historians even argue that they were the founders of the first imperialist state in the world (Homer & Sylla, 2005; Narçın, 2013). This is the overall sketch of the economic structure in the ancient civilizations which sustained their reign until the industrial revolution.

## Conclusion

With transition to permanent settlement, agriculture economy has become a determinative factor in the economy and politics in ancient civilizations. Due to the insufficient water reserves, water ownership became more important than land ownership. The water issue further made the temples

and the clergy vulnerable as they held control over the lands. Construction of water complexes appeared to be a necessity to make better use of the soil and improve productivity. Relying on religious arguments, the clergy used their power to maintain control over the water as well. It is commonly argued that it was the clergy which offered a solution to the problem of transporting water to the lands for farming and agriculture.

The dominant role the clergy played in the ancient Mesopotamian societies can be attributed to the people's subscription to religious arguments and tenets. The clergy used this as an opportunity to establish authority over the people and maximize their interests. Due to lack of scientific knowledge, little understanding was offered to better analyze natural disasters and climate issues. This led most people to seek refuge in the blessing of the local gods which made temples important sites of power centralization; this is why a number of temples and other religious structures have been erected nearby the residential areas. People believed that the idols preserved in the temples were protectors and owners of the cities; religious rituals were performed in front of these idols; prophecies announced in front of these gods by the clergy had enormous impact upon the decisions of the rulers.

The vast majority of the lands was controlled by the clergy by reliance on economics of extortion. For this reason, the temples have become centers of wealth accumulation and important actors in the economy. The lands were processed by use of slaves and peasants who worked under dire conditions. While there were no differences between the slaves and the free workers in terms of working conditions, the clergy owned the property of the first. The remaining lands were leased out to the peasants who returned their agricultural outcome to the clergy administration. In return, they only received portions of their production that would be sufficient for their sustenance. The temples, using their political power very effectively, were also able to maintain economic monopoly in the ancient civilizations.

The clergy further played as a major in the bureaucracy as well, making sure that it has greater weight in the crucial mechanisms so that they would oppose some decisions that are contrary to their interests. One of the earliest conflicts between the ruling class and the bureaucratic elite emerged when decisions were taken despite such opposition by the clergy. The temple priests, aware that in order to sustain economic power, it was necessary to hold political power as well, spent efforts to ensure that the undesirable decisions taken at the bureaucratic mechanisms were reversed. This political struggle laid down the foundations for the first secular state in the world.

## Notes

- 1 There are certain similarities between the Noah's story in the scripts of Abrahamic religions and the epic of Gilgamesh.
- 2 The globe (covering a surface area of 510 million square kilometers) hosts 1.4 billion cubic kilometers of water sources. The usable potable water resources

are only 0.0036 percent of this amount (Karaman & Gökalp, 2010). The total amount of water per square centimeter on earth is 273 liters, whereas only 0.1 liter of this amount is potable water (Kıran, 2008).

- 3 Sumerians, one of the ancient civilizations in the region, have been named after their ability to use the water effectively in agricultural production. The word Sumerian is a combination of Sum, which literally means in local language “man of water,” and Er, which means “man who processes the water” (Saygın, 2017).
- 4 This influence has amounted to the extent that it caused struggle for power between the temples and the palace. As in the case of the Kingdom of Lagash, seized by the priests of Ningirsu Temple, temples did not hesitate to employ this power in pursuit of their interests.

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# Interest-bearing debt in ancient civilizations

## Sumerian era

*Muhammet Sait Bozik and Selim Demez*

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### Introduction

Clay tablets excavated in the archeological works in Mesopotamia mostly feature information on commercial agreements and debt transactions. Demand for debt, as these tablets show, is mainly focused on consumption, production and trade activities; similarly, main principles governing repayment procedure resemble with the practices that are executed in contemporary practices. But there are also differences as well; the main difference is observed in how interest is accrued and reflected in the main capital and how wealth is transferred through this practice. It is not easy to make an analysis of the interest-bearing debt which have been controversial throughout the history of mankind. In theory, conventional finance has positive impacts upon the financing of economic growth. The new technologies generated by new investments funded through the conventional banking system make huge contribution to the production of goods and services. On the other hand, it is also a costly option because it causes chronic issues such as income inequality and bankruptcy.

Despite these problems, the practice of usury has been appealing due to the huge amounts of profits associated with it. For this reason, the general public, the clerics and even the state have offered sophisticated arguments to legitimize the practice of interest. The temples have most of the production and consumption factors under control in the economic environment of the ancient times; they serve as the first institutional structures of usury in the history through their active roles in the interest-bearing debt. The ancient communities use land to cultivate grain; cultivation of the lands make contribution to the economic activities through agricultural production and through its effects on infrastructure. For this reason, irrigation of the lands holds special importance. Because both land and irrigation is so important, people mostly tend to settle nearby rivers and other similar areas (Maaijer, 1998). This enables the temples to maintain control over the people and the lands and aggravates its influence over the economic relations.

Most probably, the first institutional structures of history are temples and palaces of ancient era. A review of the Sumerian cities reveals that kings have been revered as representatives of God and buried in large and glorious structures which are also used as temples that serve as the epicenter of main activities in the cities. The temples serve as the administrative centers as well as the center of economic activities. The book records of the state activities are also kept in these temples; historical evidence shows that advanced financial sheets and calculation methods are employed to carry out the relevant activities. The temples have a large sum of assets under their possession, including lands, products and golds and silvers, collected through absolution of sins of particularly the wealth segment of the society. These assets are further used by the temple to lend money which often involves a high interest rate (Eser & Kılıç, 2017). This section investigates the institutional roots of the interest-bearing debt transactions in the Sumerian era with a particular reference to the temples.

### **Nature of interest-bearing debt in ancient civilizations and legal foundation**

The legal foundations of the ancient civilizations are based on rules and customs that emerge through interactions among the members of the society. The first written legal texts are also based on these repeated practices mostly consulted at times of disputes for a settlement. In other words, the first written legal texts are slightly revised versions of customs and norms that the society has developed over centuries. A review of the written texts in the Sumerian era which made huge contribution to the transformation of Mesopotamia into a huge civilization reveals frequent references of terms right and justice. It is not possible to speak of a legal text devoid of such notions. The existing written material refers to a law of society in this era revolving around right and justice. In the Sumerian era, legal texts are drafted in consideration of the potential impacts of economic transactions upon the society and the justice system. Specific examples in these legal texts unique to the field of economy shows the importance Sumerians attach to the rule of law and to the commercial activities (Arslantaş & Septioğlu, 2016). To better understand the legal status of interest-bearing debt transactions in the ancient civilizations, it is essential to investigate the nature and place of interest-bearing debt relations in the society.

Conceptual explanation of the transactions that allow interest and usury is connoted by identifying the main features that distinguish it from other types of borrowing. A specific interest rate, a predefined date of repayment and the amount to be repaid are the main features of interest-bearing debt. The reasons of the need for specifying the interest-bearing transactions in writing need further exploration. Hudson (2002) notes

that there has been no system in the Sumerian or other similar ancient societies that places emphasis upon individual prosperity and refers to a system where the benefit and interest of the majority is underlined. Hudson also recalls that the institutional leadership of the temples hold control over the wealth of the society in the name of the individuals. The ability and mission of the monetary administration to serve in the name of the society through an institutional identity and status leads to introduction of punitive and coercive actions or the sake of protecting the interest of the community against the unpaid debts. To deprive the debtor of his freedom and to implement punitive actions, laws were made to ensure that the interest-bearing debt transactions are concluded in writing and in the presence of witnesses.

In an ideal world, the parties to a lending transaction and deal should be satisfied with the contracts whose terms have been defined before (Peebles, 2010). But this is rarely seen in debt practices. The development of trade leads to further lending transactions which eventually require introduction of some legal arrangements on interest and terms of repayment. Before the written legal texts, there were also oral agreements and norms on the implementation of the rules applicable to such transactions and identification of interest rates associated with the repayment procedure.

Because only written texts and arrangements have been passed through generations, there is no detailed information on the oral practices. But written texts suggest that even thousands of years ago, there were some efforts toward restrictions and prohibitions in order to address the harms associated with the practice of usury and to protect the society against these harms. Authorities attempt to take some measures to address the consequences of the interest-bearing debt transactions. The measures taken to alleviate social injustice and inequality often pay attention to controlling the interest rates. For this reason, the primary solution offered for the problem has been identification of a reasonable interest rate rather than complete prohibition (İldız, 2013). The measures only partially work because it causes further problems when the rate is set beyond the market realities. In some instances, interest is prohibited; but this also does not work. Black markets operate their own rates which hurts the idea and sense of justice ever worse.

The ancient times legal texts place emphasis upon notions such as justice and order. The Urukagina tablets, the oldest tablets of laws, are a good example of this. Reformist texts often contain sanctions for this purpose. These tablets contain provisions on the amount of debts, the interest rates that apply to the debt and on the terms under which certain type of debts are absolved or postponed. It appears that in case of failure to repay the debts, severe sanctions including imprisonment are imposed. Similar provisions and statements can be found in the Ana-İttisu laws, presumably promulgated after the Urukagina and Ur-Nammu laws. These legal texts

written in the Sumerian language are translated into the Assyrian language. The term interest that appear in the Assyrian version of the text mainly refers to transactions where the debt is not repaid and the main amount is transferred to next year (Tosun & Yalvaç, 1989).

In interest-bearing debt transactions, the borrower may present some of the family members as collateral. Those who fail to repay their debts may be seized as slaves based on this contract. The issue of slavery which has been in practice for centuries has only been resolved recently. The high interest rates that temples have charged in the ancient times exacerbate the problem. For this reason, the frequent bankruptcies often result in debt slavery. The usurers who exploit the fear of the people over falling victim as slaves emerge as financial providers who offer loans at more reasonable terms when compared to the temples. The need for borrowing associated with the dire conditions in the region makes usury an appealing profession that speaks to the despair of the people. The state administration also attempts to exploit this state of despair; the secular rulers have to make some legal arrangements in order to address the problems associated with the order of exploitation where the temples turn the people into slaves. The people are encouraged to receive loans from the state at reasonable rates. This policy seeks to solve the issue of poverty and counterbalance the growing influence of the temples and the clergy (Akrep, 2017). King Urukagina introduces laws to pardon those who are convicted due to failure of repaying the debts. Such arrangements indicate the power of the state in the power struggle between the clergy and the rulers (Kılıç & Mutlu, 2013). However, temporal solutions such as lifting the obligations associated with the debt do not offer lasting settlement of the problem. The legal system often allows restrictions to be imposed upon those who are unable to pay their debts. This makes slavery a very common reality in the ancient civilizations. The legal texts from the cuneiform era contain legal arrangements on the rights and obligations of the slaves and terms applicable to the practice and institution of slavery. Lagash King Urukagina, viewed as the oldest lawmaker in the history of mankind, takes the lead in this respect. The legal texts drafted for better governance reveal the state of economic affairs of the Lagash people in this period. Fishing, breeding or trade as well as other simple economic activities are subjected to taxation. Living conditions are further exacerbated by the customary expenses the people have to pay to the clergy and temples on weddings, divorce and burials. Additionally, the priests have the authority of readjusting the rates applicable to the services they offer; as a result, the people often have to borrow monies to cover the expenses. The people lose their assets due to the debts they receive to pay the taxes and fees. When their debts are exposed, their collaterals are confiscated because the contracts often allow the creditor to take the wife or other family members of the debtor as hostage.

## Interest-bearing debt in Sumerian society

It is argued that Sumerians are the first to use the term freedom. People who have limited means borrow money whereas they have to present themselves, wives or children, in addition to their assets, as collaterals. When the debt is due, the debtors or their family members have to serve the creditor as slaves in case of failure to repay the debt. The cases of bankruptcy are common in the region due to the climate conditions which then leads to slavery of debt. Every ruler, aware of this problem, seeks to find solutions and mostly pardons the interest-bearing debt. The notion that refers to freedom is used in Sumerian community to express the state of slaves of debt who are freed upon pardons (Graeber, 2009).

The determinative factor in debt is terms of repayment. These terms are divided into three categories by their nature: (1) debts for which repayment is not expected, (2) debts for which repayment in the same amount is expected and (3) debts for which additional payment is charged (Noonan, 1957). Charity is the most popular form of debt for which repayment is not expected, as promoted and encouraged by the monotheistic religions.<sup>1</sup> In particular, Islam encourages the creditor to forsake the repayment when money is lent to the poor or to impose loose terms upon the borrower.<sup>2</sup> In any case, Islam does not allow any addition to the original amount of debt; however, history tells that this recommendation has not been honored diligently.<sup>3</sup>

The interest-bearing debt of ancient era are subject to simpler norms. Date of repayment is often adjusted in consideration of the harvest time. In case of need, the people borrow almost anything from neighbors based on interest-charged transactions. The interest-bearing debt presumably start with the barter economy and become widespread with the use of coins.<sup>4</sup> It is useful to explain some notions and concepts before examining the process of popularization of interest-bearing debt transactions. Today, almost the entire interest-bearing debt process is based on money or other similar instruments. This makes it easier to define the term interest. One of the reasons for the conflicting theological views on the interest-bearing debt transactions is the changing nature and definition of money over time. Even today, there are a number of definitions of money. It is possible to argue that many forms of payment introduced over the centuries in the past, including precious stones (silver, gold, copper, etc.) and grain products have been used as means of exchange (İldız, 2013). Some of these were consumable productions which leads to controversies on how to make a distinction between rent and interest. For this reason, every culture and faith system have its own answer to the question as to what constitute interest and usury in reference to its own values.

The conditions of the time are very appropriate for the spread of interest-bearing debt transactions. As they become widespread, number of debtors

from different backgrounds increases dramatically. The poor segment of the society generally borrows money for their daily needs rather than for investment purposes (Ildiz, 2013). The interest rates are in general very high. The problems associated with the repayment procedures are addressed by political measures which, however, rarely work well.<sup>5</sup> The inefficiency of the political decisions can be attributed to the failure of the state, the heterogeneous sphere of influence and means of organization. Most of the regional administrations are made of complex entities with limited sphere of influence and their homogenous centralist features are pretty weak. The socio-political determinative elements of the ruling class are functional unit scale, complexity and integration. The functional unit scale depends on the level of individual and institutional participation, the level of individual participation in social events and the size of social domain. Complexity depends on the expansion capacity of differentiation between social units and integration refers to level of dependency among the units (Stein, 1994). Because the ideological basis of the structure that regulates the relationship between the society and the administrative authority varies in accordance with the economic and political strategies of the elites, the state mechanism should be seen as a collection of structures that maintain authority in a limited area rather than homogenous organisms that hold complete control and power. For this reason, the state mechanism has hard times offering lasting solutions for social issues associated with a complicated issue like interest-bearing debt transactions. Instead, the state only introduces maximum interest rate, legal sanctions applicable to the problems experienced in repayment of consumable goods, requires conclusion of debt contracts in the presence of public authorities, adjusts the mortgages in consideration of harvest times, restricts debt slavery to three years, excludes women's personal assets from the debt of their husbands and limits the sphere of action of the temples in interest-bearing debt transactions.

It is not possible to argue that the post-ancient time civilizations have successfully addressed this problem. Even though leading faith systems prohibit interest-bearing debt transactions by reliance on moral arguments, the prohibitions only delay the emergence of modern banking for a while; eventually, the practices of usury have evolved into an institutional setting that creates one of the most advanced and sophisticated sectors in the history.

Most tablets found in excavations contain very specific and detailed information on the interest-bearing debt transactions. It is a known fact that interest-bearing debt transactions exist even before the popularization of coins in 1000 B.C. Those who live in countryside prefer consumable products including oat, wheat, bread, butter and honey whereas those who live in urban areas pick metals as means and instruments of payment (Mews & Abraham, 2007).

As the society manufactures, in a sense, it creates money for the economic system. These consumable products that serve as money are popular

means of payment for the interest-bearing debt. *Mash* in Sumerian language and *sibtu* in Acadian language are used to mean interest whereas *harra* and *hubullu* mean interest-bearing debt transaction respectively (İldız, 2013). The tablets contain references to terms such as changing interest, fixed interest and type of interest. Sumerians charge 33 percent of interest rate for grains and 20–25 percent for coins and metals (Homer & Sylla, 2005). The changing interest rates are generally high. For instance, small revisions are made in Ešnunna laws to alleviate the repercussions of the interest load, this and other similar interventions seek to contain the effects of high interest rates that the clergy applies.<sup>6</sup> Restrictions to interest rates seek to counterbalance the economic demography that makes the creditors disproportionately powerful. Most of these arrangements are focused on loans used for consumption rather than production.<sup>7</sup>

### Sumerian temples and interest-bearing debt

In the modern era, the notion temple refers to a minimal venue where prayers and rituals are performed. However, the role of the temples in the ancient civilizations is not limited to the sphere of theology. The temples in this era play a wide range of roles ranging from economic activities such as storing and weighing the grain to social life. For instance, the temples in the Sumerian era play a uniting role within the society as they appeal to the members of the different classes (Averbeck, 2010). In economic terms, the temples are designated as centers of redistribution of the incomes and revenues associated with the presents by donors and the rents (Powell, 1977). The clerics, serving as mediators between the gods and the individuals, expand their sphere of authority by relying on this role and thus accumulate wealth and power (Günaltay, 1987). The clerics provide loans on interest for the people, thus exacerbating the income inequality. Noting that the ancient civilizations considered interest as integrated part of the economic activities, Oppenheim (1977) believes that the interest by the clergy in the interest-bearing debt transactions should be regarded natural.<sup>8</sup> In the end, the temples are very active and dynamic structures seeking to meet a number of needs and demands of the society in the theological and economic domains.<sup>9</sup>

The people believe that gods bestowed the lands they use not as property but as means of making a living and expressing their gratitude. For this reason, they save the part of products that is sufficient for their livelihood and reserve the rest for the temples, seen as the throne of the gods in the world. Often times, the clergy argue that natural disasters are due to lack of donations made to the temples (Erkızan, 2009). For the clergy, the whole thing is pretty simple: donations mean additional interest revenue. As a result, the temples have become institutions of lending loans on interest because the people, when they are unable to cultivate the land due to lack of

funds, ask loan from the clergy. The loan contracts made between the clergy and the people generate greater revenues for the temples. This starts as some sort of ritual but over the time turns into a social and economic practice. People tend to make more donations to the temples in an attempt to attract the blessing of gods which, ironically, increases the interest rates. The loans on interest that emerge as a ritual leave indelible marks on the Sumerian society which hosts a number of gods and temples.

Garbutt (1984) notes that the temples offer loans in different lines of production and make divisions among them. Unlike the established view in the literature, he argues that the temples offer loans on low interest rates for consuming purposes whereas the interest rates are pretty high for commercial activities. Harris (1960), referring to brutal practices employed for those who fail to repay their debts, recalls that some debtors handed their wives to the temples and that they may even have to sell their children in case of failure to pay the debt. The temples divide the loans into two types in the name of gods. The first is pure loans offered at 80 percent of interest rate in the name of the god Shamas; and the second is the type of loan associated with an oath taken in respect of the gods.<sup>10</sup> In the first type, also known as collective loans, the clergy is the loaning part, along with the gods. In this rarely used type, the clergy also performs roles of a trader. It is, however, hard to present a certain view on this type of loan because the relationship between the trader and the temple has not been adequately clarified.<sup>11</sup> In the second type, employed more frequently, the loan is provided as an integrated part of a promise made to gods; thus, in case of failure, the parties believe that gods will punish the violating party for its failure. The society believes that even an ordinary natural disaster is a form of punishment gods inflict due to such a failure. For this reason, the debtors feel obligated to pay extra amount of interest for forgiveness.

Temples which control the large parts of the arable lands can be accepted as one of the initial examples of institutional structures in the history of mankind (Renger, 1978). The primary mission of the temples are mostly religious tasks such as administering rituals. However, there are archeological evidences suggesting that they do not confine themselves to this particular area and show interest in economic activities as well. From this perspective, the temples deserve to be called the first financial institutions of the human history. Serving like a bank, the temples manage to remain influential organizations and actors of the economy (Ildiz, 2013). In the current situation, sustainability of high amount of profits made out of the interest-bearing debt is relevant to ability to adopt institutional abilities and features.

The temples have made enormous progress in economic activities, particularly the interest-bearing debt. Their success in storing the agricultural outcome and organizing its distribution to the local people is a good example of this. The temples that take record of all economic activities



perform transactions through contracts where they set the conditions and terms. The theory attributes the acceptability and legitimacy of an organism to the goals of the members, the nature of the interactions, the issues to be analyzed, ability of reflecting social relations and change in the identities of those who perform the task because the continuity and sustainability of certain rules and tasks developed under certain norms is ensured only this way (Yılmaz, 2015). Particularly the problems should be addressed through standardized methods and they should be resolved by reliance on foreseeable methods and approaches.

The educated staff employed at the temples offer a great deal of advantage in this respect. The success of the temples, the greatest investors of their times, in the implementation of routines that make them acquire an institutional identity should be attributed to this. Temples are determinative in the terms and sanctions that apply to the debt contracts. Educated temple staff keep regular record of the debt transactions and contracts done under their supervision. The terms of contracts are transparent and clear; when these terms and conditions are violated, predefined sanctions are imposed. The disputes are settled in reference to the terms and requirements set by the temples. In case the contract is violated, sanctions are strictly invoked. The society is aware that even the temple staff is replaced, the sanctions in the contracts will be implemented. This ensures the sustainability of the contracts.

## Conclusion

The suffering the people in the ancient civilizations had to endure in connection with the loans on interest offered by the clergy is associated directly with the understanding of religion at the time. Every god had a temple in the polytheist Sumerian society and there was a special cycle between the human being and the gods. The clergy served as mediators between the people and the gods, and as such, their wishes were considered as will and order of the gods. The clergy abused this power in the loans on interest activities. When they ask extra payment, the debtor abide by these wishes as they are considered divine ruling. The debtors believe that they will be punished in case they do not honor these obligations. As a result, the clergy adopted even a more brutal approach to exploit the people through interest-bearing debt transactions. The theology suggests that those who pay more will please the gods and when they are pleased, they will forgive sinful acts. The debtors further believe that the loaning part is the god, therefore, they pay to the gods and not the temples.

The polytheist nature of the Sumerian society allowed the spread of extortion. The temples have become significant economic actors with the spread of the income inequality due to the sustaining system of exploitation. The temples, playing similar roles to those played by modern banks, offered a

diverse set of loans at different interest rates. This diversity also confirms that interest-bearing debts/loans held a special place in the Sumerian society. The state administration, aware of the hardships the society encountered, tried to intervene by reducing the interest rates. But such attempts have often failed to address the root cause of the problem.

Ancient communities establish an economic order based on agriculture. This order requires collective labor rather than individual workers. The fact that the clergy holds the majority of the lands enables them to maintain control over the community. Economic activities are mainly performed by the clergy which also holds golds and silvers that serve as the means of economic flow; as a result, the temples and the priests have leverage of imposing their own rules. The clergy lends golds and silvers at high interest rate and creates a fiscal cycle. The economic order where interest-bearing debt constitute the backbone of the system reinforces the control of the clergy upon the people. The temples which collect debts before the harvest punish the people who are unable to repay by enslavement and confiscation. The usurers who appear as means of offering money at reasonable rates expand their portfolio. The temples and the usurers lead to a problem of income inequality and to a rise in general welfare.

Regularly kept books, educated staff, detailed contracts, seals representing the legitimacy of the contracts and the institutional identity of the temples are to be seen as strong indicators of institutionalization.

## Notes

- 1 Charity covers every type of expense made to meet the material needs of the poor in the society in an effort to please Allah. See Çağrıçı (2000).
- 2 The goal is to protect and support the poor. On the other hand, it should be noted that Qur'an prescribes detailed terms applicable to the process of repayment. Forsaking the credit is up to the lender who would, in that case, expect favor from Allah in afterlife.
- 3 For this reason, poverty and inequality still remain chronic problems that await a settlement.
- 4 There is no information for the period before that.
- 5 For instance, legal arrangements are introduced to interfere with the interest rate or completely ban the practice. Legal texts often contain provisions and rules on restriction of the interest practices. In some cases, usury is even subjected to criminal prosecution.
- 6 This is done because high interest loans are generally due when it is harvest time; this measure is taken to make sure that the people do not lose already limited assets because they have rare opportunities in the time of harvest (Akrep, 2017). The principle that the interest cannot exceed the main amount, this principle has been inherited by other civilizations as well.
- 7 "The Mosaic law" excluding the aliens (non-Jews) from the interest ban in the debt transactions is a good example of this. A similar attitude is observed in the preamble of the Hammurabi laws. The remaining parts of the text introduce

restrictions and interventions with high interest rates in an attempt to lend support for the people who suffer from repercussions of the debt. It is not possible to argue that such restrictive measures properly address the problems associated with the interest-bearing debt transactions.

- 8 The clergy never gives upon the interest revenue even in times of severe economic problems and instead, by asking the repayment of the due amounts before the deadline, they exacerbate the suffering of the debtors (Yoffee, 1995).
- 9 The religious beliefs of the time should be first analyzed to better understand the impact of the interest-bearing debt in the ancient era on the society. There is a normative relationship based on mutual understanding and agreement between gods and human beings. Gods have certain responsibilities vis-à-vis human beings who, in return, have to perform certain duties and tasks. The cooperation that ensures cycle of life in the universe responds to the expectations of the gods and human beings. The people perform their tasks through rituals whereas the gods sustain life by protecting them. The gods are extension of the existence whereas people exist by the will of gods (Demirci, 2019). The kings receive the authority of ruling from gods; therefore, temples acquire a certain form of power and influence over the rulers as well.
- 10 In this type of loan, a human being and a god serve as creditors.
- 11 In this type of loan, the temples receive support from the traders holding large amounts of cash.

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# The merchant societies and usury

## Assyrians and Babylonians

*Muhammet Sait Bozik and Murat Ustaoglu*

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### Introduction

One of the factors affecting interest-bearing debt in ancient civilizations is the use of water to better cultivate the agricultural areas. Effective use of water often requires an organized effort; and the temples appear to be the most organized structures in these civilizations; thus, it is no surprise to see that the clergy takes a lead role in shaping the economic landscape because they are influential in making decisions on how to use the water in agricultural territories. But the clergy, holding the economic power in their hands, also transforms this into a golden opportunity. For this reason, an answer should be sought for the question as to how influential a religious entity could be in economic affairs. The Babylonian temples serve as religious centers, courts of law, schools and archiving structures, as well as banks and commercial institutions. The role of the temples in financial affairs is similar to the role of the modern banking practices (Bromberg, 1942).

The temples which start to become influential in the Sumerian era acquire an institutional identity in the Babylonian times; it is not wrong to argue that they lose their powers in economic terrain in the Assyrian era. Why they lost influence and powers is a question that deserves closer attention. The answer to the question can be spotted in the nature of the interest-bearing debt. The temples initially maintain their relations with the society through interest-bearing debt; in these transactions, they charge excessive amount of interest to the original loan. In some cases, they deliberately put the debtors into a difficult position in an attempt to exploit their predicament and to charge even greater amount of interest. Such practices of exploitation cause serious economic and social problems within the society.

In the case of Babylonian civilization, the political authorities have to take measures in order to address the social cost associated with the excessive manipulation of the loans on interest, including debt slavery. The measures include legal restrictions that apply to the interest rates and to the nature of the loans on interest. In the Babylonian era, the kings issue pardons for the borrowers and free debt slaves; the pardons may go to a large extent to lift

the entire debt as well. Some academic accounts argue that such practices of pardoning and addressing the issues associated with loans on interest have amounted to the level of customs (Alexander, 1938). Additionally, alternative sources of loaning emerge in the Babylonian era; usurers who offer loans at a more reasonable interest rate appear to be a good alternative to the temples. The evolving trade structure in the Assyrian era changes the course of debt transactions and undermines the economic influence of the temples as well.

### **Assyrian and Babylonian era**

The Assyrians are known for their contribution to the development of trade and their trade relations with Asia Minor. Their approach to trade is different from how other civilizations in the same period define it. Because of scarcity of raw materials and of agricultural production, the Assyrians pay greater attention to trade activities. Some additional structures contribute to their trade relations and interactions with wealthy and rich Anatolian cities. The *Karums* and *Wabartums*, controlled by the state, are some examples. These are autonomous structures that do not have direct trade-related missions and obligations but serve to enhance trade relations. It should also be noted that contract law is pretty advanced in the Assyrian civilization.<sup>1</sup> This allows the Assyrian state to conclude partnership deals with capital holders and merchants which eventually help them build trade colonies and provide financing for trade activities. In return for these services by the state, the merchants who make huge amounts of profits through their trade activities involving neighboring territories pay taxes (Koçak, 2009).

It should be noted that the economic climate of the Assyrian era has its own unique outlook. One of the factors that shape this climate is the role of trade and the debt. A review of the debt transactions in the Assyrian era reveals that the modes of repayment and the interest rates applicable to the loans vary by who the debtor is and by the nature of the loan. For instance, an Assyrian who lends money to a local in a territory where he performs trade may ask silver or grain as interest. But table findings show that the traders do not prefer grain because they have no permanent settlements, thus have little opportunity to store and preserve it. Yet in some instances, repayment in form of agricultural product is preferred because Assyrian traders are unable to perform agricultural production. Therefore, in order to meet their agricultural needs, they may in some cases accept agricultural products as interest of the loans (Öz, 2014).

Social relations with the Anatolian civilizations are limited at the beginning; however, Assyrian traders conclude second marriages with Anatolian women which inevitably enhance the social relations as well. Second wives often perform tasks on trade activities including interest rates on loans,

eligibility for loaning, repayment of the debts and the interest and mode of collection. Even though most of these marriages are concluded to start a family, prenups are pretty common; terms of these marriage agreements are explicit and introduce serious sanctions. For instance, an Assyrian merchant who concludes his second marriage with an Anatolian woman will have to pay a certain amount of silver or free certain number of slaves in case he marries another Assyrian woman (Küçükbezci, 2011). Mode of payment in commercial deals and loan bills in the advanced economies of Mesopotamia; however, grain is mostly preferred in local transactions. But the market value of this mode of payment that plays a role similar to currency of the present time varies. The rulers who seek to control the fluctuations due to these differences make interventions in an attempt to standardize the payments (Homer & Sylla, 2005). Interest rates are the most popular instruments of economic intervention.

Babylonians, still known for the gardens of Eden, the Babylonian tower, religious legends and temples, is another ancient civilization that left strong impact in the region.<sup>2</sup> The land, situated along the plains of alluviums created by the flows of Euphrates and Tigris, is not suitable for agricultural production. The vast majority of the land is composed of deserts and face serious threats and risks of drought and floods. Green areas alongside the rivers lead to animal breeding, and, as long as irrigated, the alluvium lands increase the amount of agricultural production. But in general, the region lacks rich natural resources. In face of these challenges, the Babylonians maintained commercial ties with the neighboring civilizations. As a result, trade networks have been established with a diverse set of communities (Oates, 2015). Urban life has become a norm in association with the intensified trade activities which eventually demanded for legal norms to regulate communal affairs. King Hammurabi systematized the customs and laws of the Sumerian and Accadian civilizations and enforced them as laws. This is why and how one of the first states governed by the rule of law in the history of humankind emerged (Şen, 2012).

The Babylonians have swiftly adapted themselves to the innovations and new technologies and ideas in a number of fields including economy. Their ability to convert by reliance on simple methods affects the evolution of money. Even though Lydia is referred to as the inventor of the concept of money, historical research shows that small coins made of copper have been used by the Babylonians who relied on weight forms, mainly silver and gold bullions in place of grains. Inscriptions on tablets confirm that the identity of the emperor whose name appears on the coin and the purity of the silver are important factors to determine the value. As monetary activities intensified, number of people who chose to become bankers also increased (Oates, 2015). Some families specialized in this line of business made huge amount of fortunes through interest revenues.

## **Interest-bearing debt in the Assyrian and Babylonian era**

Most of the interest-bearing debt takes place between temples, palace and nobles. The temples, using the advantages associated with their institutional identity, become largely involved in financial affairs. In addition to providing financial services, the temples also impose sanctions and take punitive actions vis-à-vis those who fail to repay their debts. The sanctions and such actions even include enslavement and other similar extreme measures. In addition, the temples have vast authorities in terms of regulating the landscape of financial affairs and trade mechanism. For instance, they change the interest rates acting like political decision makers; from this perspective, it could be argued that they actually serve as a financial actor similar to the present-day central banks. The palace also plays an active role in the administration of interest-bearing debt. Temples over the time lose their impact, being replaced by the palaces in economic and financial affairs in the aftermath of the Old Babylonian era (Ildiz, 2013).

Wealthy merchants are also influential actors in the sector of loans on interest, particularly in the Assyrian era. The interest rates the merchants charge in this era is gravely high; the interest rates in the Babylonians is around 20 percent, whereas it is not possible to speak of a fixed rate in the Assyrian times.<sup>3</sup> People in the Anatolian hinterland also develop intense trade relations and interactions. Historical and archeological findings reveal that there are strong interactions between the Assyrian traders and the people in Anatolia. In most of these interactions, Assyrians serve as lenders and the Anatolians appear to be borrowers. The average interest rate that applies to financial transactions among the Assyrians is 30 percent.<sup>4</sup> However, interest rate that applies to the financial deals between Assyrians and the local people is visible higher (Küçükbezci, 2011). The interest rates the Assyrian traders charge for the loans Anatolian people borrow may exceed 120 percent, though often times, it is 60 percent on average (Balkan, 1974). This is much higher than the traders exercise among themselves. However, social interactions with the local people over the time also impact upon the imbalance. The social and cultural ties established through marriages of the Assyrian traders with the local women contribute to the decline of the interest rates that apply to deals with the local borrowers. For instance, historical records show that after establishment of such ties, interest rates decline to 20 percent on an annual basis.

Like many other civilizations, the Assyrians also have to interfere with the interest rates. They introduce some restrictions applicable to the interest rates through legislative actions. In case of violation of these restrictions, the violators will face severe penalties and sanctions. For instance, when a borrower charges interest higher than the prescribed rates, he will lose all the money he lends. Despite these severe measures, the market rates remain



well above the legally prescribed rates. In Assyrian civilization where commercial life makes progress, variety is observed in the interest-bearing debt. Some expressions in texts from old Babylonian era, spotted in the library of Assyrian king Assurbanipal, confirm this. Subtle tricks and practices with regard to interest are specified in the commercial deals and contracts in details. For instance, silver or products of nature in the value of silver are loaned and in return, various products such as date or sesame are asked in place of repayment. In this way, the Assyrian traders meet their need for agricultural products and also have the opportunity of manipulating the exchange values of the agricultural products by reliance on their business skills. The repayment of loans on interest is generally made in accordance with the market rates in time of repayment rather than the rate during harvest (İldiz, 2013).

In rare instances, the Assyrians borrow loans from the local people. Likewise, they rarely seek financing from sources other than local people in Anatolia. Guild organizations similar to *bit karim*, the trade organization of solidarity the Assyrian traders subscribe to, are also found in Anatolia. Statements on the tablets regarding these guild organizations involving Anatolian traders also provide insights on the function of bit karims. For instance, a tablet states that a person from Anatolia has to borrow money from bit karim to bury his father who leaves no inheritance. Another tablet states that a commission convenes to make a decision on a certain amount of fund borrowed from bit karim and that the fund is transferred to the receiver in the presence of the members of the commission after the borrower takes an oath on repayment. The money bit karim lends is subject to interest and in case of failure in repayment, certain sanctions are invoked. In some instances, the Assyrian trader who is unable to pay his debt is held hostage until the fulfillment of the debt (Küçükbezci, 2011).

### **Role of temples in interest-bearing debt**

Murashu, a family corporation in Mesopotamia founded by Murashu in 500 BC in the city of Niffer, is very influential in Mesopotamia. The commercial activities of the corporation give insights on the role of interest in the economic climate of the time. The corporation, specialized in the management of agricultural matters and activities, rents the lands of landowners at low prices. The company sub-leases the lands to the local people by charging an additional interest rate that goes up to 40 percent. Likewise, the company also buys the agricultural products and livestock at very low prices and lease them to those who are in need of them at a very high price (İldiz, 2013). In short, the company rents assets from the people and lease them to those who need them and thus acts as a financial mediator. In every phase, the lease price or provision of loan is recalculated; the repeated loans on interest make the people even poorer. The motivation of a corporation like

Murashu to make profit is understandable. But what is interesting is the eagerness of temples to become involved in financial matters given that they are expected to be moved by theological motivations.

The temples, at the very heart of the monetary relations, also hold power over the conduct of silver system as well.<sup>5</sup> It could be even argued that some of their characteristics are similar to features of contemporary financial institutions. The clergy and the staff in the temples are generally educated and respected members of the society. They have silver and gold coins under their control, and they serve as bookkeeper of debt transactions. Some statements in debt bills suggest that the temples rely on some religious arguments in an attempt to justify the interest-bearing debt. The argument stresses that if loan is provided in the name of God, then it is God that should determine the interest rate. Statements and emphases in the texts are also references to this argument. For instance, a statement at a temple in the city of Sittar reads: “Puzurum, son of Ili-kadari, borrowed 38 1/16 shekel of silver from god Shamas. He shall pay an interest rate that shall be determined by Shamas” (Eagleton & Williams, 2011). The temples, using religious precepts as means of legitimization particularly in the Sumerian era, add greater amount of assets to their wealth at the expense of the impoverishment of the general public. In the Babylonian and Assyrian times, on the other hand, the influence of the temples declines as the palace and nobles ascend. After the replacement of the temple as main provider of financial means by the palace, little emphasis is placed upon religious arguments to justify interest-bearing debt (Ildiz, 2013). But for a long time, temples have been one of the main sources of funds and financing in the Assyrian and Babylonian eras simply because they are, after the state, the most organized entities with a strong infrastructure.

### **Legal arrangements on interest-bearing debt**

Historians concur that Esnunna laws from the Babylonian era (1925 BC) are the oldest legal texts that directly administer the interest-bearing debt transactions (Maloney, 1974). The law serves as a means of transition from the legal reforms of the Sumerian era which introduce limited provisions on the rights and obligations and comprehensive Hammurabi laws. From this perspective, it could be argued that they in fact affected the development of the latter. A review of the rules and provisions in the texts on borrowing and interest reveals that there is detailed information on the interest rates (Tosun & Yalvaç, 1989).<sup>6</sup> The rates in Esnunna laws are more reasonable when compared to the interest rates in Assyrian era (Weidner, 1950). In fact, there is no clear statement in the texts on the precise rates which vary according to the commodity and time that is subject to debt.

Compared to the Sumerian and Babylonian legal reforms, it can be concluded that the Hammurabi laws, viewed as the most advanced and

influential legal texts of the time, are exclusive texts that contain comprehensive legal arrangements. The entire text is composed of 282 legal articles. A number of articles deal with personal properties and wealth, the sale of these properties, their lease, operation, loaning and leasing transactions, interest rates, the duties of traders and partners, the responsibilities of the workers and the wages to be paid to labor force and postponement of payment of debts in time of droughts and scarcity. Additionally, the code also includes provisions on the practice of interest (Ildiz, 2013; Tosun & Yalvaç, 1989).<sup>7</sup> As in the case with the Ensunna laws, the Hammurabi Code and laws also contain certain provisions and rules that apply to interest-bearing debt and on the interest rates as well as restrictions to these rates. These restrictions seek to protect the rights of the parties. For instance, the provision that the traders who exceed the interest rate prescribed for silver and barley will lose the original amount of the loan mainly seeks to address potential cases of victimizations that may be caused by high interest rate between the lender and the borrower. In this way, the lawmakers try to take measures that will contribute to achievement of peace, stability and welfare within the society. Some heavy sanctions are repeated in different provisions; this indicates the importance attached to the implementation of the rules applicable to interest rates. But it should be noted that the Hammurabi Code does not contain any rule or provision that completely prohibits the practice of interest.

### **Goodness and changing interest rates**

Interestingly, despite that some renowned Babylonian families such as Egibi and Murashu have made fortunes out of interest-based loaning, interest-based transactions are not welcomed in some areas. Particularly in the Western areas, taking interest was considered sign of rudeness even though it did not bear any sanction.<sup>8</sup> Interest-free loaning was viewed as alternative to this lack of courtesy. This type of loan is provided for unreturned favors, out of mere goodness and involves repayment of the original amount without any addition in form of interest. Particularly in the time of Assyrians, this type of borrowing practice is common and widespread; in most of these cases, those who are in need of money for their simple commercial objectives and repaying their tax fees seek funds from who they consider close acquaintance. This type of debt is generally referred to as debt of *goodness* (Veenhof, 1999). In case any problem is experienced in the repayment of these loans which are in essence interest-free, changes can be made to the nature of the transaction. In general, when a short term loan of goodness is not repaid in due time, either a new date of interest-free repayment is identified or the loan is restructured, this time, however, with addition of a certain amount of interest which may go up to 40, 100, 140 and even 240 percent of the original amount of the loan (Delaporte, 1925).

Table 4.1 Interest rates in ancient civilizations

Chronological order (BC)	Market interest rate		Maximum legal interest rate	
	Interest rates applicable to grains (pct)	Interest rates applicable to coins (pct)	Interest rates applicable to grains (pct)	Interest rates applicable to coins (pct)
<i>Babylonians</i>				
1900–732	20–33	10–25	33	20
732–625	20–33	10–20	33	20
625–539	?–20	10–20	20	20
IV–V century		40 (?)		
<i>Assyrians</i>				
IX.–VII. Century	30–50	20–40		

Source: Homer, S., & Sylla, R. (2005). *A History of Interest Rates* (4th ed.)

Such exceptional interest rates applied to loans of “goodness” in case of failure to repay the original amount in due time are not very common. However, expressions in archeological excavations confirm that they are not very unusual. The following excerpt from table number 61 revealed during the Kültepe Mound excavations is one example to cite (Bilgiç, 1990):

This text has been identified as a precise debt bill whereas it is also a borrowing contract recorded in the presence of witnesses in its tablet, stating that Dan-Assur shall return silver he would take as  $\frac{1}{2}$  mina from Pusanum when he travels to Asur as 1 mina of silver 150 days later. Under this bill, the borrower shall pay 1 mina in return for  $\frac{1}{1}$  mina of loan he receives; the contract also stipulates that in case of failure to repay this amount after passage of 150 days, a new interest rate shall be identified, applicable to the prescribed amount of 1 mina. Given that the revenue made out of the debt transaction of 150 days is 100 pct, the annual interest rate for this transaction becomes 240 pct.

The original text does not make mention of specific rates but instead makes verbal and descriptive references including “increases by one-third of the original amount,” “there will be increase” and “the amount shall increase further in case of failure to repay the debt in due time.” Additionally, the rates vary in accordance with the goods subject to the debt transactions, the duration and the region. For instance, interest rate for grape is in general 50 percent; but it is implemented as 30 percent in rare instances; in the Babylonian era, the interest rate for grape is set as 33 percent whereas interest rate for silver drops to 20 percent. These rates also cover the interest-free loans in case they are not repaid in time. Penalty fees are invoked for interest-free loans in case the borrower does not make repayment (Delaporte, 1925).

In ancient times, legal interest rates have been specified in an attempt to address the issue of skyrocketing rates in the market. There are different approaches toward the inconsistent interest rates in the market. Slotsky (1997), examining a number of commercial tablets from the ancient times, concludes that certain products have been priced by the market. Temin (2002), on the other hand, in his argument he supports by numeric analyzes and the findings and data of Slotsky, proves that there is price fluctuation in a certain pattern in the economies of the ancient times. Political developments, natural disasters such drought and inclement weather conditions that affect agricultural production in ancient civilizations all have impact upon the economic structure and outlook of the society. For instance, price fluctuations take place for the products whose supply declines due to inconvenient weather conditions or political turmoil. There are views suggesting that these fluctuations, referred to by Temin as inflation, affect the market interest rates. Therefore, the general increase in the market prices, or inflation rate, should be taken into consideration as a major reason for the high interest rates in certain period of times in ancient civilizations.

## Conclusion

Tables on the ancient civilizations offer insights and vast information on the practice of interest and debt in this period. The temples serve as important financial mediators and institutions, much like corporate banks of the contemporary times. They take records of the financial transactions very seriously, confirming their place in the economic affairs of the ancient civilizations. The loans that temple offer in the Babylonian era support agricultural and farming activities and production; but the high interest rates associated with these loans often times put the local people into a very difficult position. The prevalence of high interest rates eventually leads to serious income inequality and injustice between temples, nobles and the general public. This creates a huge price and cost for the society as a whole; in an attempt to address this problem, Esnunna laws introduce restrictions to interest rates; subsequent to these initial steps, Hammurabi laws adopt a more realistic stance and identify firmer goals. Instead of prohibiting the practice of interest, Hammurabi laws introduce sanctions and constraints applicable to interest revenues in an attempt to ensure income equality. But despite these measures and sanctions, the usurers and the temples are able to invent new alternatives to maximize their profits and revenues.

The interest-bearing debt in the Assyrian era are not different from those in the Babylonian era. However, the Assyrian civilization is able to develop new methods for the traders thanks to their influence and active role in commerce. The Assyrian merchants have the opportunity of borrowing money from commercial centers and mechanisms they create by their own initiative rather than the temples. In this way, they better use the commercial

opportunities and alleviate the barriers before economic activities. The Assyrians who maintain strong trade ties with the Anatolian people play an important role in the spread of interest-bearing debt. Historical and archeological findings reveal that interest-bearing practices play a huge role in daily interactions; these findings offer valuable insights on the interest rates the Assyrians impose upon the borrowers. Assyrian traders, according to these findings, impose higher interest rates for the loans they lend to the Anatolian aliens whereas they charge more reasonable interest for the loans they use among themselves. Both the high interest rates and the legal measures adopted to deal with the problems associated with the practice of interest in both Babylonian and Assyrian periods are indicative of the harms associated with these transactions upon the society.

## Notes

- 1 Contract type known as *Naraqum* is the most known.
- 2 The Babylonians who controlled the southern part of Mesopotamia were a renowned community in areas stretching from Baghdad to the Gulf of Basra. The Babylonian state whose capital was Nineveh, an important political and religious center in the Middle East during the period of 4000–500 B.C., was an influential actor in the region. The Hammurabi era is particularly important as it represents the strongest period of this urban state where the idea of absolute monarchy was also developed. Subsequent to his death, the empire started to decline and was further taken under control by other civilizations including Hittites and Assyrians. Even though they made a brief reappearance, the Persians eliminated the Babylonians in their entirety in 539 B.C. (Şen, 2012).
- 3 Under the terms of certain agreements, an annual interest rate of 40 percent is imposed in case of failure to repay the debt. This unusually very high interest rate serves a function of punishing the debtor.
- 4 The interest rates may decline to 20 percent and may go up to 120 percent at most.
- 5 In Mesopotamia, silver constitutes the basis of monetary relations. Silver coins have a monetary value in proportion to the amount of silver they contain.
- 6 For instance, article 18 states that if a man takes a woman as wife and moves to her father's home and then the bride dies, the groom will leave what he brings. In this case, he only takes what remains, with the addition of an interest of 1/6 shekel for 1 shekel. Article 20 covers a borrowing transaction between two parties in which the lender converts the loan into the value of silver, whereas article 21 contains provisions on an interest-bearing debt transaction involving no conversion. The amount of interest somehow changes in all the three cases; it should be noted that some of these rates are also executed in the Hammurabi laws as well (Maloney, 1974).
- 7 Articles and provisions on the practice of interest in Hammurabi laws include the following examples: article 49 states that if a man borrows silver from a trader and offers a field prepared for the harvest of sesame or barley and tells him to cultivate the field and collect the crop (and if the trader does so), the

owner of the field will have the barley or sesame crop during the harvest time; in return for the money he borrows, he will pay barley or sesame along with the interest to the trader who is also entitled to labor payment. Article 50 states that if the borrower delivers a field with sesame or barley cultivated, the owner of the field will receive the crop and return the silver and the interest to the trader. According to article 51, if there is no silver for repayment, he shall return sesame and barley as interest and original debt to the trader in accordance with the order of the king. Article 66 says that if a man takes silver coins from a trader and the trader asks the money he lends back and if that man has nothing to give back, and tells the trader to take the field after the cultivation and take the dates on the field in the amount of the silver he lends before, the owner of the field will receive the entire date crop in case the trader does not consent to this offer. He shall repay the silver and the interest in accordance with the tablet rates to the trader but will receive the entire date crop on the field. Article 71 suggests that if a man who has borrowed money has no silver but barley, the orders and laws of the king shall be observed in the process of repayment. Under Article 72, if a trader fails to acknowledge the barley he receives and to issue a receipt of payment, or adds the interest to the original amount, the trader shall pay twice as much as the barley he has received. If a trader fails to lend the silver and barley in full amount as agreed to the borrower but receives it in full amount, everything he lends shall be taken from him. According to article 99, if a trader gives silver to a street vendor and takes him to the street for business, he shall increase the amount of money he receives and make profit out of it. Article 100 states that if he makes profit and revenues, he shall take record of it and repay the interest to the trader in due time.

- 8 Such expressions are to be found in letters exchanged between merchants. For instance, in a letter, the sender says: "You pay the remaining 140 shekel with your own money; but let there be no interest between us, after all, we both are gentlemen."

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# Social costs of interest-bearing debt in Ancient Greece

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### Introduction

Debt and interest have become an integral part of the social life and the norms and rules governing the community with the advancement of economic activities. Interest is the oldest mechanism the society has developed to govern business relations. It is a tool and instrument that has the ability to control most transactions without a central control center. The collection of these transactions holds importance for the society in terms of controlling the negative impacts of the economic outcomes. The macroeconomic objective of these laws is to protect the society and the individual members against the destabilizing impacts of borrowing (Morris, 1988).

In reviewing interest-bearing debt in Ancient Greece, it is essential to look into the economic life where members of the society are divided into different categories based on their social statuses. The ruling class and the wealthy segment of the society are the aristocrats whereas the remaining poor who have no land ownership are in their service. The injustice in the distribution of sources becomes even more visible when the interest-bearing debt practices are widely employed. The structure of the society and the economic relations are mechanisms that reinforce each other. The people who have little sources and no land create their own colonies outside the cities. The relations between the cities that host trade activities and are controlled by the aristocrats and the colonies that offer agricultural products and labor force evolve under the developing economic conditions.

The colonies along the Mediterranean shores played huge role in the urbanization of Ancient Greece. Colonization ensured recognition of new civilizations by Ancient Greece's people. They learned the alphabet from other civilizations; but the Greeks who acquired a lot of innovations from others contributed to the expansion of trade. Particularly interested in naval trade, the Greek colonies made advancements in marine technology which enabled them to take advantage of the sea routes in their trade activities. With the spread of coins, professions of money exchange and banking have become popular, in association with the popularization of trade and commerce.

The economic activities diversified by trade led to need for labor and cost. In the coasts, traders needed labor that required low cost in both production and logistics phases of the trade commodities carried by vessels. The Ancient Greek communities, in search of cheap labor, used slavery as an active component of trade and commerce. As a result of the economic stagnation in the eighth century BC, migration movements have been observed in Ancient Greece which culminated in the enslavement of many people. This system, favored by the nobles and landlords, reinforced the rule and power of the aristocrats. These arguments constitute the basis of the economic welfare of the Ancient Greek society (Kaya, 2018).

### **Ancient Greek society and economy**

Ancient Greeks lived by a primitive social order in ancient times. Over the time, tribes were divided into *fratris*,<sup>1</sup> which served as the backbone of the society. Every *fratris* has more than one *genos*.<sup>2</sup> *Fratris* unions are called *file*. *Fratriarch*<sup>3</sup> comes to power by election in *fratris*; *files* are ruled by *filovasileus*.<sup>4</sup> They basically serve as the ruler or king of the political units. The poor people in rural areas are dependent upon this noble class. With the collapse of the clan system, wealth differentiation takes place between classes. The class of the nobles becomes richer by taking a greater share from the lands. Aristocrats live in their private properties as families and use the people who have no organic affiliation with the nobles as slaves.

Colonization took place in Mediterranean, Marmara and Black Sea shores in the aftermath of the eighth century BC. The transfer to lands to the nobles by birth in Greek colonies led to clashes. The commons who were unable to protect their interests in urban areas decided to create colonies which held their own distinct features and independence from the cities. The only linkage between colonies and cities was a mechanism of respect based on myths, common beliefs and traditions. Over the time, relations between the cities and the colonies have developed thanks to common trade interests and priorities. The centers of trade and artisanship in the Greek society also became centers of slavery. The Greek cities turned into main slavery markets.<sup>5</sup> Particularly debt slavery was a common practice in Ancient Greece. The courts made verdicts on this practice pretty easily (Kovalev & Diakov, 2017).

It is possible to argue that Ancient Greece has a simple economic order. Every tribe consumes what it produces. Economy is mostly based on husbandry and agriculture. Because there is no trade connection with the outer world, money is not commonly used. City-states play the greatest role in the development of Greek economy and society. The city centers are composed of trade areas and domains held by small merchants. Artisans flow into the cities and diversify the production which eventually contributes to the

development of trade activities. Additionally, shipowners and usurers also play active roles. Even in the peak times of Greek economy, it is not possible to speak of an absolute integration among the city-states. It is also observed that agricultural areas are not politically and socially developed. Particularly coastal areas are centers of trade and industry. Unlike the local trade mostly based on market commerce and retailing, the coastal cities are engaged in imports and exports.

Vendors, peasants and small merchants are all engaged in local trade. Every city has its own market and agora. The attractive profits in wholesale trade lead to greater presence of money exchangers and usurers in the markets of the cities. The money exchangers and usurers mostly pay attention to currency exchange and other financial transactions that merchants on the coastal areas will find necessary. The money exchangers and usurers who charge up to 36 percent as interest for these financial transactions have become wealthy and rich (Kovalev & Diakov, 2017). Additionally, the clergy also plays a determinative role in the interest-bearing debt in the Ancient Greece.

The interest-bearing debt which has not been justified by universal moral standards are common in Ancient Greece because it is a reality dictated by poverty. Unlike Roman case where money was needed for luxurious expenses, people of trade needed money in Ancient Greece. The enhanced land and naval trade fuels the commodities of the lenders to additional markets. Loans provided for new markets are viewed as high risk; thus, the high interest rate asked for such loans is justified in the eyes of the people. The problems borrowers experience in time of repayment create a schism between the borrowers and the lenders. The lenders who provide interest-free loans are considered members of a supreme class. The state authorities, on the other hand, allow practice of interest as long as reasonable amount of interest is charged and the practice is performed for public utility. Number of legal cases handled in the courts is pretty high due to the popularity of interest-bearing debt (Maloney, 1971).

Aristoteles, Plato and other Greek philosophers categorically oppose the interest-bearing debt and argue that the practice of usury and interest should be prohibited without any exception, noting that the lenders are in general rich whereas the borrowers are poor, that usury deepens the gap between different segments of the society, that it enables internalization of slavery and that it offers nothing moral to the social life (Homer & Sylla, 2005). But these calls and views do not change the economic life. Temples offering interest-bearing debt become even more organized. The interest-bearing debt in Greek cities are popular discussions among the people. The reason that temples are preferred in Ancient Greece is that there is no institutional structure equivalent to a state bank. The people tend to believe that money deposited with the temples will do a sacred service (Gelpi & Julien-Labruyere, 2000).

## Interest-bearing debt in Ancient Greece

In Ancient Greece, debt transactions are pretty common in daily trade activities. Interest-based or interest-free loans are frequently used in transactions between legal and real personalities, state institutions, temples and foundations. It is not realistic to assume that the debt will be interest-free in an economic order where loan system plays key roles. Historical records also confirm this reality. Interest-bearing debts/loans are mostly employed by the rich rather than banks or temples. Court records indicate that a leading politician, Demosthenes, in 300 BC, makes revenues out of the interest he makes in association with deposits. Demosthenes who lost his father at childhood files a motion with the court arguing that only one-tenth of the inheritance was given to him (Sungur, 1998). Excerpts from the court minutes offer some useful insights on the interest-bearing debt:

In addition, he left Talanton silver money invested for interest in form of Drahme, this amount used to generate interest in the amount that is greater than 7 mnas annually. At home, he left 80 mnas of silver money at home. In addition to these goods he left at home, he had 70 mnas he transferred to a vessel mortgage contract for Ksuthos, 2400 Drahmes in Pasion's bank, 600 Drahmes in Pylados' bank and 1600 Drahmes held by Demomeles, son of Demon. Moreover, he gave away 200, 300 drahmes for investment purposes to different persons, in total, it amounted 1 talanton. The total amount was more than 8 talantons and 50 mnas. As you review the whole, you will see that the total amount of inheritance is 14 talantons.

Theophrastos, born in the island of Mytilene, also served in the same years as the administrator of the school founded by Aristo who was also his teacher. In his book, *Kharakteres*, he provides examples of typologies and characters from the Greek society of the time. The book further contains expressions and statements suggesting that interest-bearing debt was prevalent in economic life. For instance, Theophrastos, in reference to the tight-fisted character, says, "He is such a man that he knocks the door of the debtor to ask half Obolos of the debt," and "He is best in investigating the due debt and incurring the interest of the interest." For the inappropriate character, he says, "He offers a sacrifice,<sup>6</sup> then asks the interest from those who made spending" (Theophrastos, 1998).

In Ancient Greece, interest rates are not low.<sup>7</sup> In addition to interest-bearing debts/loans provided by temples, state authorities and rich people, there are three types of loans: interest-free loans provided by associations and other similar entities for their members, loans provided by small enterprises and similar initiatives and loans provided for maritime transportation which holds special importance in the economy. Temples, private

persons and bankers finance mortgaged debts. In maritime trade, collateral is secured from private persons alone. For the borrowing need in public sector, other cities, temples and private persons are the usual sources. The interest rates the banks impose upon short term debts are higher than the interest rate imposed by private persons.<sup>8</sup> For this reason, when they are unable to secure their financial needs from other sources, people usually consult with the banks. Usurers are another group that imposes high interest rates to loans (İldiz, 2013).<sup>9</sup> Loans on interest the poor people borrow are small in terms of amount but very attractive for the lenders because they are subject to a very high interest rate. By the revenues made out of these loans, the need for financing of the members of upper classes is met. Because production is performed by the slaves and the poor people, the interest charged against the poor people negatively affects the economic development (Finley, 2007). Historian Platurque has taken a more realistic approach to the rather softened comments made by Finley and expressed his own opinion on the matter by saying, “Usurers, just like hungry eagles penetrate their victims with their beaks and claws and skin them and rip them apart to death, skin and rip the people of their little wealth”. Similarly, many contemporary philosophers and politicians have expressed concerns related to interest-based transactions. Greek philosopher Plato describes interest as a behavior that is immoral and unacceptable for a wise and righteous person to be involved in. He further argues that interest be banned due to the political, economic and social ramifications of it. Because interest aggravates the existing inequality of income, it causes immoral behaviors such as poverty, inequality, and self-centeredness to spread. This pronounced effect causes instabilities in the ideal state system. Aristoteles, protégé of Plato, defends that money is a strict exchange tool and it is a limited version of metals. He claims that to use money to earn profit from interest taking it away from its main functions is an unjust and unnatural way of using it (Pıçak, 2012).<sup>10</sup>

People of high-status need money and financing for a variety of reasons, including life in luxurious life, expensive gifts for ladies and greater political power (Finley, 2007). The class of nobles has limited choices to meet these demands. The financing is provided by the loan on interest provided by the members of the same class. Professional bankers or some nobles view the money trade as an undesired profession.<sup>11</sup> But still, they keep lending money to their friends, acquaintances and the state institutions.

In rare instances, loans on interest have been influential and effective in addressing problems of scarcity and in providing wealth and prosperity for the people. The people of Klazomenai, one of the ancient Greek cities, rented olive oil they produced to the state in return for interest in an attempt to deal with scarcity of grain and money. Under the contract made between the people and the state administration, the oil is loaded to the vessels and shipped to wheat markets, and as a collateral of the oil, wheat along with its interest is received. This resolved the scarcity issue of Klazomenai people

for a brief period of time and also contributed to the state's policies in financing public initiatives (Aristoteles, 2016). Another example of loan on interest is maritime loans employed in financing the maritime trade which bears huge risk. Executive financiers who are specialized in maritime affairs provide loans for maritime activities. For this reason, the interest rates in this field are visibly high. For instance, the interest rate that applies to the loans provided for the maritime sector in Athens is 36 percent. Because the due date is determined in accordance with the time spent in navigation, the contracts are often based on a period of less than a year. This corresponds to an unusually high annual interest rate. Circumstances are varied in maritime sector. For instance, interest rates are liberalized in Athens and subject to no restrictions. On the other hand, high interest rates are not allowed in Rhodes. Despite risk factor in the sector, financing maritime transactions is profitable. For this reason, interest-bearing debt is a very attractive line of business (Böckh, 1851).

One of the most frequent borrowers in Ancient times is the state itself. The state mechanism, almost like a real person, is always in need of borrowing.<sup>12</sup> In Ancient times states, despite revenues made out of conquests and the rich mining resources, chronic scarcity of cash money is frequently observed. The states resort to the local people and temples as well as other similar domestic sources, and external sources including other states or their citizens. The people often provide interest-free loans whereas temples charge a certain amount of interest when they lend money to the state. The biggest creditors in Athens in 500–400 BC include the Athena Temple in Athens Acropolis, Ephesus Artemis Temple and some other temples. These structures which were the greatest temples of their time over the time lost their financial powers. The impact of local temples became less influential in the Hellenistic era whereas Delos Apollo Temple evolved into center of financial transactions serving roles and functions similar to present time roles by a typical central bank. The Athens Temple initially charged 6 percent in loans provided for the state whereas this declined to 1.2 percent. In general, the interest rates that apply to the loans provided for the state do not fall below the interest rates that apply to debt between private parties.<sup>13</sup> The state's debt transactions are performed by commissions; despite efforts by these commissions to conclude deals at reasonable terms, the interest rates generally remain around 10 percent (İldız, 2013).<sup>14</sup>

The temples that provide protection for people and valuable assets in times of war lend loan on interest for the states and the private parties as well. Similar practices are also seen in Mesopotamian civilizations. Temples are viewed as sacred places of gods and these structures are widely trusted because of the belief that the kings inherit their power from gods. The temples turn into creditor institutions because they are trusted and they play significant roles in money trade. Archeological findings prove that temple banking was widespread in Delos. This temple which initially served as a

depositor then started lending money to Attika-Delos Union and the private citizens. According to findings, the accounting records and books are kept on stones. Despite some shortcomings, historical records exist for a period of the fourth century B.C. and the second century B.C. These findings reveal that the deposits and valuable objects are loaned on an interest rate of 10 percent.<sup>15</sup>

The oldest example of temple banking in Asia Minor is Ephesos Artemis Temple. Ephesos, performing temple banking since 550 B.C., is known for its activities of loaning on interest. It should be noted that loaning on interest is not in the monopoly of the temples. With the development of money exchanging, the money exchangers in Ancient Greece perform controls over metal coins and conduct currency exchange transactions. After the money exchangers start performing roles of confidence needed for quality control of money and function of exchange, approach toward artisanship changes. The commercial code built upon the basis of trust becomes an important part of the profession. The money exchangers, aware of this fact, decide to serve as mediators between the borrowers and the lenders. For instance, a certain amount of money is deposited with the money exchanger who is expected to make a repayment of the debt to a third party. In this way, the money exchangers bear witness of the transaction and run a quality control of the money. Such transactions over the time become widespread and the money exchangers start accepting deposits which they lend to others at a higher interest rate. Bogaert (1986), writing on this system which operates by the principles of contemporary modern banking, notes that a banker who had a number of customers typically held a significant amount of deposits in his vault because not all depositors would want to withdraw their monies at the same time. Adding that it was not necessary to make all deposits present, he further recalls that additional deposits would offset the losses associated with the withdrawal.

The term *tokos* used to connote the notion interest in Ancient Greece also means revenue, outcome or fruit. The bankers made most of their revenues out of lending the static money they held under their control. The interest rates were determined in line with the due date and the deposit. The interest rate was set as mina based on obol and drakhme on a monthly or yearly basis. Even though it is estimated that annual interest rate was 10–12 percent in 400 B.C., the records present no definitive information (Pekary, 1976). Because bankers in Athens imposed an interest rate of 18 percent and above, workshop owners and small enterprises were unable to honor their debts. The interest rates imposed by the temples, on the other hand, are lower in this period (İldiz, 2013).

Practices of debt slavery, also observed in Mesopotamia, were also commonplace in the Ancient Greek cities. Athens was the most important city-state in 700 B.C. The inhabitants of the city are classified as owners of large plantations, traders, industrialists and owners of small lands. The traders



and landlords become richer whereas the relatively disadvantaged groups experience greater troubles in economic terms. The reason is that peasants borrow loans on interest from rich traders to cultivate their lands but fail to repay their debts, as a result, they fall victim of the existing practices and customs under which they become slaves due to their debts. Slaves, seen as economic goods, are sold to people in other cities. It should be noted that rules and principles applicable to the debt slavery system in Ancient Greece are much stricter than the rules enforced in Mesopotamian civilizations (Erol, 2007). Whether the state has taken measures including restrictions or prohibitive actions to curb the impacts of interest is controversial. Solon introduces the most comprehensive economic reforms in Greek society. The reform measures include provisions that agriculture tools may not be deposited as collaterals. Solon, ending the practice of debt slavery, does not introduce any rules applicable to the interest rates (Sagstetter, 2013).

There is no definitive finding on any restrictions or prohibition toward the practice of interest. On the contrary, there are certain statements in the historical records that for a fixed interest rate of 18 percent, the ceiling rate under the laws, everything except divorcing the wife can be claimed against the debtor in case of failure to repay the loan.<sup>16</sup> Aeschines, in a narration of this period, makes mention of high interest rate. Aeschines who borrows loan at an interest rate of 36 percent to start a business soon realizes that he would not survive in the business environment. As a measure, he tries to minimize the risk by borrowing money from his friend at an interest rate of 18 percent. There were thus a small number of lucky persons who could rely on their friends against the usurers who charged high interest rates. Findings also suggest that interest rates applicable to borrowing contracts involving friends are much lower (Michell, 2014). A famous rhetorician Lysias, in a speech, refers to an Athens law on a debt transaction where the lender may set the interest rate.<sup>17</sup> In case of need, the state can borrow money from Athens treasury at an interest rate of 1.2 percent (Amemiya, 2007).<sup>18</sup> Similarly, some examples cited by Davies (1981) give insights on the interest rates applicable to transactions in that period.<sup>19</sup> Some data on which rate generates what amount of revenue is as follows:

- i. 1600 Drakhme for 25 percent of interest rate
- ii. 6000 Drakhme for 12 percent of interest rate
- iii. 1600 Drakhme for 16 percent of interest rate
- iv. 3000 Drakhme for 18 percent of interest rate
- v. 4500 Drakhme for 12 percent of interest rate

These high interest rates lead to liquidity shortage. Because capital holders make large amounts of revenues, the society develops a negative stance vis-à-vis those who impose high interest rates (Amemiya, 2007). The greatest problem that the loans on interest have created in Ancient Greece is the



great harm it has done upon the social fabric through income inequality that high interest rates caused. This is elaborated in the writings and statements of the scholars and thinkers of the time as well. This society is known for its contribution to the development and evolution of philosophy; but ironically, in the same society, wisdom and other similar noble values promoted by philosophy have been eroded by the practice of interest. Thus, it is only understandable that thinkers in that society rejected to tolerate this practice. Due to lack of any restrictions by religious authorities, the temples turn into institutions providing loans on interest. The state also does not take action to prohibit the practice of interest. Even though it is argued that some restrictions have been introduced during the reign of Solon, these have limited impact. There is no evidence in any historical source on the complete prohibition of interest in that period (Elbir, 1952).

## Conclusion

In a nutshell, it is possible to speak of three types of debt in the economic life of Ancient Greece: interest-free loans provided by associations or fraternity houses for their own members, the loaning practices among owners of small enterprises and loans involving maritime activities. As this sketch tells, not only temples, money exchangers and merchants but also small enterprise owners and associations also become involved in the interest-bearing debt transactions and practices in Ancient Greece. The need of the poor people for financing is much lower than the amount of debts and loans to be used in trade activities; however, lending money to the poor is an attractive business due to the high interest rates applicable to such transactions. Such practices, on the other hand, deepen the gap between social classes. The high interest rates applicable to loans provided for the poor people eventually lead to the enslavement of ordinary people. In fact, this has been detrimental to the overall business environment because production was mostly labor-intensive. Therefore, widespread enslavement caused scarcity of labor force in the market, affecting the entire economic mechanism.

Even though interest is not promoted and welcomed in the society, it seems that it has been a widespread practice. Almost every capital holder in Ancient Greece lends money to the state authorities and the members of their class as well. The class of nobles borrows money for their luxury spending whereas the state authorities ask borrowing from temples, private persons and other states to overcome their financial difficulties. It is interesting to observe that the legal personalities, when lending money and loans to the state authorities, offer interest-free schemes whereas the temples charge certain interest rates to the loans they lend. For instance, Delos Apollo Temple in the Hellenistic era has evolved into a typical central bank as a result of its ascendance to serving as a center of the financial activities and transactions. This can be attributed to its authority of charging certain interest rates when

lending money to state institutions. It should also be noted that the temples have become attractive financial actors also because of the trust and confidence they built as depositors of money and coins and mediators in commercial exchanges.

## Notes

- 1 Tribes consisting of members with blood relationships that constitute Greek society.
- 2 Genos is an aristocratic clan. Members of a genos hold affixes of their genos in their titles and names. Genos is also seen as a sign of power in state administration (Sacks & Murray, 1995)
- 3 Literally means ruler of the fratriis.
- 4 Literally means king of file.
- 5 For instance, the census for the 117th Olympic Games held in BC 312 reveals that the Attica's population included 21,000 citizens of Athens, 400,000 slaves and 10,000 aliens. Even though this is not precise information, number of slaves is significantly large.
- 6 In Ancient Greece, sacrifice is offered to gods for different purposes including expressing gratitude or ensuring that demands or desires are fulfilled. This excerpt suggests that people are manipulated over their religious sentiments and they are asked to pay interest.
- 7 1 Drakhme = 6 Obolos; this means that it is a pretty high interest rate, 25 percent on a daily basis. In interest-based borrowing, the interest is 1–2 Drakhme per Mina (12–14 percent). In commodity borrowing, the interest rate is 50 percent.
- 8 In Ancient Greece, the coastal cities have gone through a process of development that enabled them to pursue naval trade activities; this created a fertile ground for the users who then served roles similar to the roles of a bank. On the other hand, the highest interest rate imposed by temples was 10 percent.
- 9 The interest rates usurers impose are very high. It is 1 Obolos per day for 1 Mina, and 1.5 Obolos for 1 Drakhme. Given that 1 Mina is 600 Obolos, the annual interest rate of 1 obolos per day is 58 pct. But given that 1 Drakhme is 6 Obolos; 1.5 Obolos interest rate per day for 1 Drakhme is 25 percent interest rate per day; it is then 9125 percent as annual rate.
- 10 According to Aristoteles (1975), there are just reasons to dislike the practice of interest because interest is not a product of money, but is a revenue out of it. He further notes that money is to be considered a means of exchange only whereas interest refers to increase in the amount of money.
- 11 Some rulers are included in this list of people.
- 12 For instance, for reasons such as scarcity of metal resources including silver and gold needed for printing money, a monopoly of the state for a long time, money was borrowed.
- 13 This refers to the rates applied to the loans provided for the state.
- 14 For instance, Knidos provided interest-based loan for Miletos (18,000 drakhme interest-free payable at the end of the first year, and 55,000 drakhmes for 6 percent of annual rate.

- 15 Amount of loan is low; for instance, the maximum amount of loan for a person or city is 50,000 drakhme; but average amount is much lower. The total amount of loans provided in 377 BC is not more than 300,000 drakhme.
- 16 There is consensus that the reasonable rate is 16 percent; but Demosthenes states it is 12 percent.
- 17 Orators, frequently seen in Ancient Greece and Rome, are persons who delivered strong and convincing statements over political issues before the public. Lysias, one of such orators, lived in BC 400.
- 18 The state model in Ancient Greece is built upon the city-state model which is quite distinctive than the contemporary practice. Every city is a city-state in Ancient Greece. There are many city-states, each of which is autonomous in defining and implementing its own policies. But in case of defense, they were able to unite to defeat their common enemies. Every city-state has its own treasury and in case of need, a city-state may lend money to others.
- 19 399–346 BC.

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# Debt and politics in Ancient Rome

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### Introduction

Those who fail to manage debt transactions often complain that the world is an unfair place. When more deeply investigated, the inequality in the distribution of wealth and income seems to provide a legitimate ground for their complaints. Due to the copious amounts of profit made by those that have chosen interest-bearing debt as an occupation and the discrepancy in prosperity, people that take loans as a line of work have been stigmatized. The most obvious reason for that, is the fact that, throughout history, the majority of people who have been involved with interest-bearing debt have built a fortune, and that they are ethnic and religious minorities that have created strong bonds with each other and specialized in business related to loan and money because they are not allowed in the public domain.

The evolution of interest-bearing debt is as valuable as the technological inventions of today. The Renaissance in Italy, the second turning point of history, the Industrial revolution and the story of the initiation of an advanced democracy that provides freedom in the United States are all events that are closely related to financial markets and economic powers (Ferguson, 2008). The roots of the European Industrial revolution lie on Ancient Rome. The economies of Ancient Rome and Ancient Greece have accumulated great wealth due to the widespread use of trading routes that exist in close proximity. Despite the massive fortune they built, because this wealth has reflected itself as the rise of slavery and an uninformed way of earning money that prioritizes class distinction, it has eventually been the main impetus for Rome's demise.

### The social structure and economic development in Ancient Rome

In the early stages of history, economic activities in a grand scale require some kind of alliance that stems from certain partnerships. People have developed animal husbandry in crowded herds to cultivate large farming

areas and also formed c-groups that specialized in hunting. With time, the groups that specialize in similar activities form alliances named Curia.<sup>1</sup> The people of Rome have 30 different Curias. These groups show some matriarchal properties and as time goes by the dominance of women becomes even more pronounced. However, when the transitions from ovine husbandry to bovine husbandry, or from hoe cultivation to plow cultivation occurred, the need for men power has increased and those groups have evolved to become patriarchal. Groups, such as Curias, that expand economically form clans. The people of Rome are a combination of clans that are active in animal husbandry. The shared use of large animal herds and pastures merge the clans. As a result, areas called *Patria*, which means the homeland or the land that was left behind by the predecessors, become common property of the clans.

The private law of the Patriarchal era limits private ownership to small gardens that are half a hectare in area. This leads to division between clans over the time by their respective wealth, also disrupting the principle of equality, a cardinal theme among the clan communities. The patres, their brothers and their siblings constitute the class of patricius, the class of nobles.<sup>2</sup> Using their privileged status within the clan, the patricius seize the buildings and lands previously used as common property of the community. The rest of the community is separated and called clients.<sup>3</sup> The clients have certain obligations including serving the patricius, joining the wars and paying ransoms in case of imprisonment. In return, the nobles have to protect the clients. The clan system eventually gives birth to a new class, a more crowded one, the plebs.<sup>4</sup> The class of plebs is more of an economic community rather than a clan, consisting of farmers, artisans and owners of small enterprise. Because they have no land under their possession, they have to lease the land they would cultivate from the patricius. But often times, the plebs are unable to repay their debts to the patricius due to natural disasters and fluctuations in agricultural markets, and eventually end up being enslaved due to their unpaid debts.<sup>5</sup> The Plebs who have to pay tax are also deprived of war spoils; in other words, they have no other source of income than the lands they lease from the nobles (Diakov & Kovalev, 2015).

Conquests in the second and third centuries BC in a sense recreate and redefine the national economy. The main sources of living in Rome are agriculture, husbandry, artisanship and trade; but spoils of war generate new opportunities as both the combatants and the state become visibly rich. In most cases, the conquered provinces are subjected to sanctions including confiscation of golds and silvers held by the people who then have to serve their Roman masters as slaves. The institution of slavery is the foundation of production in Rome; a greater number of slaves means greater production and wealth. The proximity of the provinces increases the mobility of slaves. The enslaved people are mostly concentrated in Italy where slave trade becomes very profitable.<sup>6</sup> In this period, number of slaves in Italy is more than the free inhabitants.

The nobles in Rome spend their material sources in rural properties or farms where the slaves work. Most part of the accumulated capital based on usury and plotting is channeled to industry and trade. Vast land also means loyal voters and more votes which can be then translated into greater political power and influence in state administration. Such political positions have simple economic return. Spoils offer abundant opportunities for getting rich by making revenues out of interest-bearing debt (Diakov & Kovalev, 2015). In Rome, interest-bearing debt is major sources of making revenue particularly among the nobles. There is no upper limit of wealth level for the privileged classes in Rome.<sup>7</sup> The members of the class of nobles may become owner of a huge wealth.<sup>8</sup>

As a renowned expert on Ancient Era economics, Finley (2007) has stated that Romans have managed the interest-bearing debt better than the Greeks ancient times, also adding that in later ages, the revenues made out of these transactions generated detrimental consequences on social welfare and fabric. Particularly in the era of empire, labor exploitation and slavery become a huge problem serving as root cause of political instability and internal struggles. Feudal entities take reign in replacement of the central authority after fading away of the state. The wealth accumulated with the expansion of the empire toward the Mediterranean region is divided among the nobles, creating a greater schism between the rich and the poor (Acemoğlu & Robinson, 2013).

### **Interest, slavery and social cost in Ancient Rome**

Like the Mesopotamian and Greek societies, the interest-bearing debt has historical roots in Ancient Rome. In Ancient Greece, interest-bearing debt/loans are financial instruments functional in commercial initiatives whereas in early times of the Roman empire, loans on interest are instruments to meet the daily needs of the peasants working in agricultural fields. Initially, loans on interest are very common way of borrowing money among the people (Maloney, 1971). The first interest-bearing debt practices are so common in Roman empire that they are included in the Law of the Twelve Tablets.<sup>9</sup> Interest-bearing debt practices are pretty common among the public. Finley (2007) notes that the majority of debt transactions in the Roman era are loans on interest that people of lower classes who have no production aspirations use. Petronius (2003), one of the leading writers of the time, uses every graphic depictions of interest in his novel in an attempt to place emphasis upon its widespread use and its disruptive impact upon the society. Because of the popularization and spread of loans on interests, many households experience debt-related problems. Interest-bearing debt practices affect almost everything in Roman society, including the debt transactions between relatives and friends. As a factor that affects almost every aspect of social life interest very deeply affects all classes of society.

There is a case called *kalendarium* in nearly every house where money to pay the loan on interest is deposited. Some historians claim that usurers' success at proliferating interest in economic life has serious political repercussions. Public authorities which aimed to remove these disturbances have taken measures, most of which have failed. For example, Emperor Tiberius had decided to deport about 4,000 Jews, mostly usurers, that had been involved with scandals, but this decision could not be imposed due to lack of regulation and the usurers continue to exist in public life. It is claimed that these Jews, especially those that partake in high interest transactions, played a major role in Rome's fall (Goodson, 2014).

Ancient Rome has suffered greatly from internalizing interest-bearing debt in economic life. There have been man uprisings and riots regarding interest debts. To prevent these kinds of reactions, some measures such as acquittal of debt or limits/bans to interest-based transactions have often been taken. For example, when Julius Caesar promised that debts will be acquitted during a civil war, interest rates decreased. Creditors panicked and started to ask for debts that have not yet fallen due. The debtors had to sell their lands to pay for their debts. Another example happened during the reign of Tiberius in 33 AD. An uprising occurs when creditors ask for their debts and debtors struggle to pay their debts. The emperor had to intervene in this tension between debtors and noble landowners. He ended this interest related distress by announcing that there will be loans given without any interest to those that are in great debt. Another striking example was during the reign of the undisputable leader of Rome, Caesar, in 45 AD. Caesar, who lived too glorious of a life for a human being in Roman thinker Cicero's words, encountered a grave amount of homeless people in the streets in his return from Italy (Dennison, 2013). These people have been forcefully taken away from their homes by usurers. According to records of the time, Caesar took care of about 300,000 people's daily food concerns. Most of these people that lost all their property were in debt to Jewish usurers with rates up to a sky-high 48 percent (Goodson, 2014).

Even these handful of ordinary examples are enough to showcase how socially precarious usury was in the Roman empire. The emperor, realizing the dangerous and threatening nature of the matter, felt obligated to fight with usury. First, he puts into action some principles that would, with today's terminology, bring money supply under control. This way, it is aimed that some of usurers' speculative behaviors that trigger chaos and panic could be avoided and interest rates could be brought under control because, in an environment of panic, usurers could easily increase interest rates. When interest rates increased, debtors failed to pay their debts and their property was confiscated at unfairly low prices, which led to even greater wealth for usurers (Watson, 2011).

When viewing Roman history, the efficacy of measures regarding interest is dubious because the past is filled with crises and uprisings. Uprisings



caused by interest-bearing debt transactions brought about the first limit on interest. The limits on interest in twelve plate law is called *fenus unicarium*. Another legal imposition, *Leges Licinia Sextiae*, comes into being when plebs riot about their debts. With this law, the interest to be paid is decided upon by looking at the capital. Rates that have already been limited were further decreased with *Tribunus' fenus semiunicarium* decision. This change marked the total ban of interest in Rome (Ildiz, 2013). The peaking animosity between plebs and patricis forced the senate to accept bills that the two councils have offered.<sup>10</sup> All citizens are recognized the right to benefiting from public lands; additionally, the previously paid interest is deducted from the overall debt. The Licinius law, promulgated in the same year, lifts the interest ban but stipulates that the interest amount shall not exceed the actual amount of debt. A decade later, the *Lex Duilia Menenia* law reintroduces restrictions upon interest, setting the upper limit of interest rate as 10 percent.<sup>11</sup> This time, a plebiscite is required to interfere with the interest rates. The *Lex Genuia* law, adopted a few years later, once again prohibits loans on interest (Livius, 1999).<sup>12</sup> *Lex Poetelia* law, adopted in 326 B.C., prohibits and lifts debt slavery and frees the citizens who have been enslaved due to unpaid debts before (Tanilli, 2015).

The Roman empire, struggling with riots associated with repercussions of the loans on interest and other similar practices, was unable to maintain stability and peace. Because plebs have no arable lands, they rent lands owned by the patricis to pay their debts. But they are unable to repay the loans they borrow mostly due to natural disasters and inconvenient climate conditions. The plebs are thus enslaved by the patricis due to their unpaid debts (Tanilli, 2015).<sup>13</sup> Plebs riot because of the heavy debt burden but no arrangement was made in the aftermath.<sup>14</sup> The *Lex Sempronia* law, promulgated nearly a century later, introduces restrictions upon interest rates again.<sup>15</sup> Politicians have introduced a number of legal arrangements applicable to the interest-bearing debt, with failure in most cases. Some of these initiatives even result in assassinations. In one such example, Praetor Sempronius Asellio, after his attempts to lift the interest ban, is killed (Appian, 1914).<sup>16</sup> During the reign of Emperor Sulla, high interest rates raise suspicion that there is no serious inspection mechanism in the implementation of the former interest ban.<sup>17</sup> Sulla, aware of the uneasiness, introduces a new law, *Unciaria Lex*, by which he implements the provisions of the Law of Twelve Tables applicable to the interest issue. This time, the law is slightly amended to impose certain limits to the upper level of interest rates (Sallust, 2007).

Rome has a very dynamic history in economic terms. One of the first economic crises in history is observed in Rome in 300 A.D. Described as a major economic crisis by historians, this deeply affects the future of Rome, the crisis affects the size of trade and the overall set of interest-bearing debt. The steady decline in the purchasing power of the money is cited as a primary reason for the economic crisis. The interest rates decline and hits rock

bottom during the reigns of Caracalla and Alexander Severus.<sup>18</sup> Most of the usurers are senators and merchants. A law made in 397 prohibits charging interest upon loans provided for senators; the law puts the senators in a very difficult position. Because of the interest ban, the senators are unable to borrow money. The senators thus try some tricks to overcome the ban. A typical trick is to use children to borrow money. Aware of these attempts, Arcadius decides to implement a special rate for the senators and ends the ban. This law specifying a certain limit of interest rate applicable to loans lent to the senators remains in force until 528 and is amended in this year by Justinianus. In 555, a five-year moratorium is pronounced for all debts to offer a solution for the issue of compound interest and debt that put the people of Sicily into a very difficult position; compound interest is prohibited by this moratorium (İldiz, 2013).

In the fifth century, additional arrangements are made to address interest restrictions and prohibitions. Two main reasons can be cited to make such arrangements. First, the social reaction to the economic decline is addressed by the representatives of the people in the administration. Secondly, the state negatively affects the economic life. The impact of religion in Rome becomes relatively visible when Christianity expands its sphere of influence in the empire.<sup>19</sup> Even though the Book of Luka contains provisions on interest, the church, having made no judgment on the interest-bearing debt before, adopts a fairly firm stance vis-à-vis the practice of interest. The point of reference for this stance is the provisions and rules cited in the holy scriptures. By reference to these provisions and stipulations, the church introduces a total ban that will remain in effect up to the Medieval Age. This brief period where interest ban is associated with religious provisions in the Roman history is the period where the prohibition of interest is honored in the strictest manner.<sup>20</sup>

As the collapse of the economy becomes a real possibility, the rich landlords add more to their wealth through the practice of usury in Rome. Number of owners of small lands who are unable to repay the loans they borrow on high interest rates declines due to the sanctions they face. The state administration, unable to adequately deal with the persistent riots, holds the landlords and the nobles in the senate responsible for defending their own territories and controlling and supervising the public. The nobles and landlords are asked to protect their properties, devise their enforcement units and supply arms and other necessary equipment for these units. As a result, the nobles build tall walls around their houses and establish markets and trade centers within their properties. Land is the main asset in these structures which start to resemble with a monarchy; thus, the powerful and the rich accumulate more wealth through interest-bearing debt.<sup>21</sup> Over the time, the class of nobles who are able to exempt their properties from the government decrees start acting like independent and autonomous entities; feudality becomes more visible and powerful. The nobles which seek to

expand their spheres of influence also try to draw the clergy and the church into the system for greater legitimacy. The church authorities become part of the system where they are able to exercise their powers and elevate their status similar to that of the nobles. The rapid growth and expansion of this system should be attributed to the transformation of the peasants into slaves through their victimization associated with high interest rates. The unjust revenues and profits made out interest-bearing debt and the exploitation of the system by the senators in Rome who conduct extensive practices of usury cause serious disruption in the social dynamics of the Roman community; this disruption in a sense then lays the foundation of the feudal system.

With expansion toward the Mediterranean shores through glorious military victories, Rome now needs more labor force for further production. The easiest way to supply labor is to transfer the wealth in the conquered regions to the central treasury and enslave the peoples in these areas. In this way, slavery reigns at the very core of the economic life. Debt slavery becomes commonplace with the spread and popularization of interest-bearing debt. Historians of Rome compare this to a very serious disease which is spread very quickly. Interest-bearing debt, which permeates the social aspects of life, affects all segments of society.

Usurers have been extremely successful in spreading and justifying interest-bearing debt; but this success plays a determinative role in the collapse of the state. Due to loans on interest, riots and rebellions frequently break out. The growing debt slavery does great harm to the social dynamics. According to historians, number of slaves is greater than free men in Rome and Italy. The nobles know no boundary when exploiting the slaves for the sake of greater productivity. As a result of merciless practices, 200,000 slaves start a collective riot in Eastern Sicily. The slaves are able to create a state of their own in the island, declaring Henna as capital city. The harms associated with the interest-bearing debt is not limited to debt slavery. A vast segment of the society face serious threats and risks of losing their properties due to their loans on interest (Diakov & Kovalev, 2015).

## Conclusion

Since the early stages of history, interest-bearing debt has caused disturbances that would trigger the empire's end. In early history, there is not a clear class distinction in the community that lived in a closed economic system. However, the transition from matriarchal system to patriarchal system brought about important changes to the social structure. The division of property due to the effects of interest-bearing debt marks the start of the unfair system that led Rome to its demise. Clan executive increase their wealth and power by way of making common patria lands their own. A new class named Patricius emerges and the people become slaves to the Patricius. Nobles' need for people that are specialized in cultivating lands and leasing them created

a new class called plebs. Plebs who lease the Patricius' lands live off the remainder of the money after they pay their loans on interest. After some time, the widespread use of interest-bearing debt and the increasing interest rates turn the society into slaves. As Rome expanded across Mediterranean coasts, the need for manpower increased which led to the enslavement of the city people appearing as a viable solution. The proliferation of interest-bearing debt produced a structure that facilitates slavery.

The economic history of Rome is very dynamic. The effect of this phenomenon reflects itself in certain policies regarding interest. There has been sometimes an upper limit to interest rates, and other times interest rates have been decreased or debts have been acquitted altogether. The slight shift of trade centers from Mediterranean coasts to Middle Europe has caused the financial centers to move from more urban areas to rural areas. This resulted in states losing control over the economy. The warnings for economic collapse have become more apparent. Wealthy landowners became even wealthier from interest revenue and small landowners that have struggled to pay the high interest loans have increased in quantity. Military officers that were already preoccupied with handling preexisting fight for the throne failed to end riots in the empire. State executives had no choice but to obligate the nobles in the senate to defend their own territories and regulate the society. To form troops to defend their own wealth has been left to the nobles themselves. This way, the nobles turned their houses into fortresses and start creating markets and trade centers in their private properties. Using this economic power, they have become feudal lords and claimed their independence.

## Notes

- 1 In Latin, Curia means bond of brotherhood. In Rome, every Curia holds the name of the mythological forefathers. Curia members celebrated the reunion of their forefathers in old times and renewed this reunion. Curia heads were empowered with the powers of a cleric and they were very influential in keeping the aliens from the Curias.
- 2 Patres is the plural form of pater, which literally means father. Patricii refers to the sons of the fathers. Patricius, on the other hand, is a word derived from patres which means fathers and is often used to connote a noble class.
- 3 It refers to the people who were under the protection of the Patricius, pledged their allegiance to them and enjoyed their economic tutelage. Often times, they were made up by emancipated slaves. The relationship between the patricius and the clients was of economic nature and was preferred in most cases in Rome.
- 4 Presumably, plebs are formerly slaves brought from the lands Roman Empire conquests. Aliens and migrants who come to the Roman lands under certain agreements with other states are also included in this class. The plebs are known for their contribution to labor force and to the acquisition of certain rights (Sandys, 1910).

- 5 Roman Empire has become one of the greatest powers in the Mediterranean area after military victories and Rome becomes one of the leading political centers in the world (Tanilli, 2015) Slavery is an important factor in Rome's approach toward Italy which serves as the supplier of the slaves. In the first century BC, 40 percent of the population in Italy are slaves (Freeman, 2003)
- 6 In big slave markets, nearly 10,000 slaves are traded on a daily basis. Production activities in Roman economy are mostly performed by the slaves who, however, are forced to live in dire conditions. In response, 200,000 slaves start a riot in Sicily and create a state of their own which survives only four years (Diakov & Kovalev, 2015).
- 7 Rome became richer thanks to the invasions and conquests following BC 200. But this led to moral degradation within the society. Lucanus, a famous poet of the time in Rome, noted that Rome made a huge fortune, but morality was defeated by the increased wealth. Due to the tendency to extravagant activities, wars turned into commercial activities often promoted by the aristocrats. Lucanus observed that time generated brutal usury and interest in this environment of greediness.
- 8 At this juncture, a significant political problem emerges: how a free republic turns into a monarchy? There is an answer to this question associated with the economic conditions of the time. The interest-bearing debt and usury serve as a means of wealth accumulation for the nobles. With the replacement of democracy with monarchy in Rome, politicians need more money to expand their sphere of influence. (Eagleton & Williams, 2011).
- 9 Politicians, their wives and children, noble rulers and farmers borrow money in a similar scheme in Ancient Greece. Additionally, in some cases, cities and provinces also borrow money for different reasons. (Ildiz, 2013).
- 10 367 BC.
- 11 347 BC.
- 12 342 BC.
- 13 In case there are multiple creditors, they are allowed to claim right on the body of the same slave, and it is not considered a criminal act.
- 14 287 BC.
- 15 193 BC.
- 16 89 BC.
- 17 88 BC.
- 18 In this period, the upper interest rate limit as spelled out in *Unciaria Lex* law made by Sulla is in force.
- 19 In the fifth century.
- 20 The Roman empire becomes weaker through the late second century. The reasons for the decline should be briefly discussed. The provinces, which have transferred all their wealth to the central administration in Rome, are unable to develop in economic terms. One reason for the collapse of Rome in economic terms is the decline of the institution of slavery. The economic system based on labor of the slaves starts to decline and give signals of a potential collapse. The slave force is an obstacle before the rationalization of production. The production system based on the slave power which requires the use of most primitive tools becomes irrelevant and inefficient with the advance of more sophisticated production means. Additionally, the slaves develop hatred against their masters due to abject

living conditions; despite preaches that slaves are humans just like free men and the masters, nothing changes; legal improvements applicable to the lives of the slaves also do not properly address the problem. Efforts to preserve the system of slavery, therefore, do not work and prevent the collapse of the system (Knight, Barnes, & Flügel, 1928). The decline of Roman economic system can also be attributed to the destructive impacts upon the capital accumulation. The Roman empire has to reserve greater amount of money for the wars of defense and for the reconstruction of cities destroyed in the offensives by the enemies. Coupled with the decline in the amount of taxes collected from the provinces, the state of perpetual warfare negatively affects the Roman economy (Piganiol, 1950).

- 21 This order in the empire leads to development of slavery. The land slavery system contains the roots and seed of feudality. Derived from Latin notion feodum which literally means property donated in return for a certain service, the system refers to absence of a central authority and domination of feudal rulers in a certain land encompassing executive, legislative and judicial powers. The feudal order includes warriors, clerics and serfs as main classes (Aydoğdu, 2015). Land slavery makes itself visible when the government issues decrees on the provinces. Under this decree, the people who live on the lands remain slaves along with their siblings and the landlords are granted the right to become their masters. The properties of the land slaves are considered properties of the masters. This system, which undermines the power and wealth of the public, enslaves the people, while the landlords, nobles and members of the state administration add greater wealth to their assets.

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# Interest-bearing debt in Ancient Egypt

*Murat İstekli and Murat Ustaoglu*

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### Introduction

Research on interest-bearing debt in Ancient Egypt poses some challenges and hardships, compared to research on other ancient civilizations. Primary challenge is associated with the archeological findings. Civilizations in Mesopotamian region including Sumerians, Babylonians and Assyrians relied on stones to take record of the interest-bearing debt borrowing contracts, whereas Ancient Egypt used papyrus for this purpose (Cruz-Uribe & Nims, 1990; Frederiksen, 1966). Due to the short lifespan of the papyrus, relatively smaller number of historical records have survived from Ancient Egyptian times (Kızıl, 2017). Despite some problems, it should be noted that there are still documents and data that allow an analysis of the interest-bearing debt transactions in Ancient Egypt. Before such an analysis, it is necessary to review the means of exchange that served as tools of the interest-bearing debt.

Any *thing* that is used as an exchange tool and represents a value is called money. This concept has turned into bills that have no actual economic value after many changes in the norm. After all, a bill is a piece of paper that is made according to certain shapes to prevent imitation. Paper money, which has started to lose even this property, began to represent a storage value in the form of credit cards and electronic transfers (Güngör, 2017). The most crucial role money played throughout its constant evolution is its function as an integral part of debt relations. It facilitated debt transactions by decreasing the cost of the transformation from concrete money to stored virtual money. The use of money in the borrowing transactions since the times of ancient civilizations led to controversies. The primary question is whether the interest-bearing debt transactions were performed for personal or institutional purposes. While there is no precise evidence, historians argue that the borrowing transactions between people before the arrival of institutional structures such as temples (as in the times of Sumerians) have taken place interest-free. They further note that the borrowing transactions gained a different dimension with the emergence of institutional structures



including temples and state that dominated the economic life and that an extra amount was added to the original amount in that setting. The cost of the interest-bearing debt which apparently disrupted the bonds of brotherhood and solidarity proved to be detrimental in that period. It should be noted that despite its apparent harms, the interest rates remained steady in the early ages of Ancient Mesopotamia (Hudson, 2002).

Even today there is still a controversy around whether or not interest-bearing debt has negative social and economic effects. On the one hand, there are people claiming the role it plays in economic growth is a net positive, and on the other hand, there are others who critique it for the burden put on people that loan with interest. The proliferation of interest-bearing debt adds extra value to all services provided and that extra value is to be borne by the consumers. Despite all problems it causes, interest-bearing debt has remained indispensable part of the economy in every society throughout the history.

The Ancient Egyptian civilization has a unique economic understanding and philosophy. Researches done on its economy-politics show that it is not easy to deconstruct and analyze this rich culture (Wilkinson, 2013). The main problem is the uncertainty in regard to the role of the temples upon economic life (Bleiberg, 1981). In other ancient civilizations, the temples are important economic actors that control almost the entire economy including the practice of usury, the uncertainty of this role in Ancient Egypt makes it harder to understand the borrowing practices. Interest, seen by theoreticians of economics as the reward for giving up on the right to using the money for a certain period of time, has been despised in all civilizations in the history (Zarlenga, 2002).

Particularly political administrations work on measures to restrict practice of interest and usury. The rulers of the Ancient Egypt also try to take a variety of measures to address problems associated with the practice of usury that disrupts social dynamics and fabric. However, it is not possible to argue that these measures have produced lasting solutions. Interestingly, these measures, despite that they have failed in a number of civilizations, are in fact implementable in many respects. Before analyzing the legal arrangements and interest-bearing debt, it is necessary to examine the characteristics of Ancient Egyptian economy in a nutshell.

## **Ancient Egypt and economy**

The Ancient Egypt civilization whose natural border is the River Nile area and Aswan residential territories in the south is known for its lifestyle and customs that constitute a rich culture (Klemm, Klemm, & Murr, 2001). This ancient civilization that disappeared two thousand year ago has been leader of a number of developments and inventions including temples, pyramids, stone-graving, medicine, chemistry, monotheism and even Olympics. Temple

walls, gravestones and papyruses provide a wealth of information on all these inventions and discoveries. Even though the text providing information on Ancient Egypt make frequent references to lifestyle, agriculture, art and architecture, religion appears to be the most important element that leaves indelible mark on the social life.

Gods represent the higher power that the people of Ancient Egypt mostly rely on; there is strong devotion among the people who have firm religious beliefs to gods. Pharaoh, the ruler of the people, is also seen as the only god who governs all aspects of life including economic affairs. Pharaoh hold the property of the irrigation system that extremely matters for agricultural production; assisted by a bureaucratic structure, the Pharaoh holds the entire system under his control.<sup>1</sup> For instance, the bureaucrats are responsible for the necessary measurements and calculations performed every year to address frequent floods hold permanent positions. In this way, they are able to carry out works of planning on agricultural activities. The water needed for irrigation runs down from Nile floods, caused by the summer rains in the mountains of Ethiopia; the Nile Valley almost never takes rainfall. The alluvions carried by the floods makes the lands fertile which allows the Egyptians to harvest more. For this reason, fields alongside the River Nile provide huge amount of crop in regular times. The agricultural outcome is mostly used to meet the needs of the palace, the rulers and the artisans and to finance large reconstruction projects (Freeman, 2003).

Part of the agricultural production is stored whereas a smaller portion is reserved for taxes. Storage allows redistribution of the product when it is necessary. The bureaucratic administration responsible for this also assume positions in public services that concern large number of people. The remaining products are stored for future use or for the purpose of barter.<sup>2</sup> The barter system is one of the major elements of Ancient Egypt. Up to BC 526, it is typically a barter economy where money has not been used as means of exchange (Mark, 2017).

From this perspective, Ancient Egypt can be seen as a typical agricultural economy. The use of lands around the River Nile, construction of irrigation canals to carry the water to inner parts and further attempts to increase the amount of agricultural production can be cited as proofs of this argument. Ancient Egypt, at the heart of an advanced network of imports, imports many raw materials including wood. The foreign goods and raw materials imported from Eastern Mediterranean shores and Central Nile area have a determinative role in the evolution of the state structure (Çivgin, 2015). Egyptians maintain trade routes to the outer world from Mediterranean on the north and from Asia on the east (Smith, 2009). They establish trade ties with Mesopotamia, Crete, Somalia and Syria.

In Ancient Egypt, trade is mostly controlled by wholesale traders who perform trade of iron, copper, papyrus, ivory and grain. The wholesalers have the leverage of controlling and manipulating the entire market in

cases of poor management and governance. The peasants who constitute the majority of the population are only able to survive through what they produce. Lands cultivated by the peasants belong theoretically to gods and the Pharaoh who is a reflection of divine power and rule on earth. The majority of the people work as laborers in agricultural lands owned by nobles and the temples. In late periods of Ancient Egypt, land property is freely transferred. Priests, rulers, traders, artisans and nobles live in the cities around the River Nile. In this way, they take advantage of the economic opportunities including river transportation. They are able to set sail and transport goods to various ports.

The substantial part of economic welfare is based on agricultural production and activities. The crops of fishery and husbandry as well as grain products are traded after their taxes are paid. Even though the River Nile area is fertile, the agricultural production still remains ineffective. Production techniques are in general primitive and underdeveloped. The share of hunting, a source of amusement and leisure for the rich and nobles, is very small in the economy; but it is crucial for poor individuals to survive. Metals used for making equipment are generally of inferior quality as valuable metals are used as means of payment in the markets. Farmers, artisans and traders are allowed to store the products only after deduction of the corresponding taxes. Large part of the production is consumed by the producers themselves. After deduction of shares payable to landlords and tax officers, the remaining crop is sold to the wholesalers or consumers through barter method. Because most of the grain is collected as tax, wheat is generally held in storage by the state. Money withdrawal orders delivered to those who have product in these storages are used by the holders as means of payment. The accounts of the grain banks serving traders and the producers are held in a central bank located in Alexandria. These accounts are booked by reliance on a method similar to the current practices. Debt and loan transactions are recorded by name. The interest rates that apply to interest-bearing debt is very high. High interest rates (nearly 10 percent per month) are the greatest obstacles before the development of trade. For this reason, the traders in Ancient Egypt are in a disadvantageous position compared to other traders from other regions. Some research shows that the model of redistribution by Karl Polanyi is a great tool to understand the Ancient Egypt economic structure. Findings about the time are separated into two categories such as ceremonial sources and executive sources (Bleiberg, 1996; Haring, 1997, 2004). Ceremonial sources that provide essential information about how the Ancient Egypt economy functioned consist of various texts written on the surface of gravestones, and in temples. On the other hand, executive sources that consist of official correspondence and records regarding property acquisition and sales are also usually written on papyrus. Despite efforts made by certain researchers to interpret gravestone writings as economic material, it is not possible to make conclusive deductions as to their

relation to economy. However, it is certain that these drawings and writings have great value when it comes to shedding light on unrecorded activities.

Stages in temples and graveyards are also depicted in ceremonial sources. Aside these stages there are also texts explaining the pharaohs' offerings to gods, their desire for forgiveness and their special donations in the temples. This information is important to understand the ideology behind the economic system in Ancient Egypt. Certain instances depicted in Kings' graves contain drawings displaying how property under the kingdom's ownership was transferred to private ownership. Stamps on certain jars and ivory labels attached to objects contain executive sources that are seen as the oldest sources of the civilization (Kaplony, 1963, 1968, 1973). The papyrus in the grave temple of King Neferirkare-Kakai is the oldest known executive source belonging to the dynasty (Posener-Krieger, 1976). There are examples of bookkeeping among documents from early times. These examples provide great economic information about criminal cases, legal conflicts regarding property and exchange between private persons. On the other hand, executive sources provide great information about the management of lands that were cultivated (Gardiner, 1941–52; McDowell, 1999). All of these documents contain critical information needed to make a comprehensive economic evaluation about different eras and places.

Historians have tried to explain Ancient Egypt's economic system by appealing to modern economic theories. The main approach in this context is that an economy functions as a whole. A market economy that is believed to function as a whole is of course theorized to function universal laws. However, modern economic theories, fail to adequately disentangle the private and public economy in Ancient Egypt. Despite appearing to depend on private transactions, the economic system in reality is completely under the control of public authorities or the kingdom (Carmona & Ezzamel, 2006).

### **Redistribution and the market economy**

Researchers investigating the ceremonial sources of Ancient Egypt use a model called the model of redistribution, a model often preferred in evaluating other Ancient civilizations' cultures as well. The findings obtained from the remnants displayed evidence supporting the claims that all property belonged to the king. The goods that piled in the collection centers in temples, which were seen as important because they reflected the king's prestige around the world, were redistributed according to the ranks and functions of people (Polanyi, 1977). There is no sufficient information on the payment methods of foreign trade and the contribution of the import and exports to economic life in the texts. However, there is information suggesting that food aid is provided to the public in festivals (Haring, 1997).

Some researchers, despite that it is considered a command economy under control of Pharaoh, note that the local economy of Ancient Egypt is

a reflection of market economy (Warburton, 1997). However, rather than these suggestions, some economic activities in Ancient Egypt and the domination of a bureaucratic approach specialized in control of these activities can be seen as market economy elements. The expert bureaucrats responsible for different public services at the same time are representatives of the public authority in economic life. Lands handed to the farmers for cultivation are controlled and measured before every flood; and based on these controls, the expected outcome is reassessed every year.

The farmers prefer to store part of their production for caution; this eventually leads to emergence of a barter economy. What feeds this economy is the use of surplus crop for barter purposes. Such practices are considered as signs indicating that the foundation of Ancient Egypt economy is based upon barter. With the spread of barter, aliens enter the market, and this then reinvigorates the market economy. In the barter economy, a weight unit, known as deben that corresponds to 90 grams, is used. Coin is never used in the barter system. Deben which can be calculated in the form of gold, silver, and copper has a value directly proportional to the value of the metal. For instance, if the price of a pair of shoes is 100 debens, any commodity in the same value can be purchased by this pair of shoes (Mark, 2017).

## **Interest-bearing debt in Ancient Egypt**

It is obvious that ideas, markets, and institutions have to be in a state of constant renovation to stay relevant. This change is heavily influenced by economic trends. Interest-bearing debt is one of the examples of economic states that had to take different forms (Visser & McIntosh, 1998). Interest, like most economic concepts, cannot be easily defined. There is still a high level of variance when it comes to defining interest depending on era, region and society. This variance makes interest a hard to clarify controversial economic concept, despite its history almost as long as the beginning of financial transactions. Aside from being controversial, it is undeniable that interest has a very long past when documents about priests giving out loans around 3500 AD, the first legal regulations about interest-bearing debt in the Kingdom Eshunna around 2000 AD, the regulations in the law of Hammurabi about the matter, and the activities to supervise banking transactions in Ancient Greece are taken into account (Yetiz, 2016). For instance, historical records show that means of payment similar to the instruments currently used in the modern financial transactions were used in Ancient Egypt. Research indicates that the agricultural fields were distributed to the holders on a metric basis and that crops, and tax records were handled by the experienced accountants and engineers. Particularly the accounting historians agree that the first records in the papyruses in Ancient Egypt were from BC 3400. Items were recorded on these papyruses for the inventory purposes and they were also used in economic transactions as well in later times (Kızıl, 2017).

Despite the mentioned difficulty, interest-bearing debt is very prevalent in the economic life of many Ancient civilizations. There are even instances of it being institutionalized in civilizations such as Ancient Rome, Greece and so forth. It should be mentioned that interest-bearing debt was legal. Creditors at some stage of history, have demanded 100 percent interest because it was not allowed surpass the principle. These instances made it essential that regulations about this matter be formed. The legislation regarding the issue is from 24th-dynastic-era Bocchoris law (Maloney, 1974). The same law bans any interest revenue surpassing the actual loan given and limits the responsibility of the loan to only the debtor for his entire life. If the debtor dies, his close relatives are responsible for the debt. This is to make sure all members of society are sensitive and informed about responsibility. No contract is binding unless it is confirmed by writing. It was even possible to end any ongoing lawsuits litigated by the creditor if debtor swore that he did not take a loan. However, this situation decreases the reliability and respect for oaths and harms the holiness of the concept (Wilkinson, 2013). According to information obtained from the papyruses, interest rates usually vary between 0 and 50 percent (Ackerman, 1981). According to Bocchoris, who observed that loaning relations and usury caused many conflicts to occur, imbalanced and unfairly set loaning relations led to the creditor pressuring the debtor.

Debts in Ancient Egypt are separated into two groups by the form of repayment (Renger, 1994).

- i. Ability to use material objects, metals and goods in the repayment process in case of an agreement between the borrower and the creditor
- ii. Repayment of the loan or debt without conversion into any other means of payment (as unit of payment)

There were also a few rules set for when a conflict during repayment occurs. If there were any complications during the repayment, the private property of the debtor could be confiscated. This was enforced as a punishment if the debt was not repaid until the set date.

Usury and high interest loans were condemned by the executive forces and precautions were taken. The most important of them is the ban on the creditor owning the debtor as a person. The rights of the creditor are limited to property that the debtor owns and no enforcement infringing on the personal freedom of the debtor was allowed because every citizen as a person, considering the fact that they could be needed in public services or in war, belonged to the state. This is why the freedom of debtor is protected by the law. Another striking law in Ancient Egypt where regulations regarding loaning relations were taken seriously is the law that bans the constant increase of debt and thus protects the rights of the debtor. According to the law, no one can take a loan without giving a signed affidavit by his closest relative. If the person does not accept this condition, it is seen as a

disgrace and subject to punishment. Aside from not getting funeral when they die, their bodies are not allowed to be kept close to their relatives after they are dead. If the debt is not repaid by the debtor or his relatives, the family gravely becomes the creditor's. During this time, visits to the relatives in the graveyard are banned. This law which also tries to control the society's respect for memories is a testament to the efforts made by the society to maintain the holiness of religious rituals. However, the main aim is to make the society used to paying debts and becoming respectful of loaning relations (Wilkinson, 2013).

The societal degenerations in later years bring new precautions to the current agenda of the state. Bakenranef ran an upper limit for interest rates, which decreased yearly to 33 percent from around 100 percent (Ellickson & Thorland, 1995). The increasing demand for luxury items in the large cities and thus the higher expenses for that purpose led these regulations to come to existence. The expenses for jewelry and art pieces, luxurious ships, countless servants, horses, houses, and gardens step out of the limits of ordinary expenses. All of these were highly demanded by the people of Thebes and Memphis, two state capitals. The products of productive lands make it possible for the wealthy to live the exaggerated lifestyle they want. Increasing debtor numbers due to similar reasons require the intervention of legislation. Laws which seem harsh gradually come to be accepted as necessary actions taken to bring discomfort under control (Wilkinson, 2013). Legal regulations mainly aim to be deterrent to people who loan irresponsibly or try to fool the creditor. Debt cancellation is another item that was guaranteed under the laws which sought to maintain social harmony.

## **Debt cancellation in Ancient Egypt**

One of the major problems in the ancient civilizations is debt slavery that caused serious problems in the social and economic life. Debt slavery is very rare in Ancient Egypt because of its unique cultural fabric (Mochrie, 2003). However, those who failed to fulfill their obligations under debt contracts were subjected to punishment. The rise of people incarcerated due to such failures led to alarming problems in some instances. Aware of this problem, political authorities relied on palliative solutions including debt cancellation by use of the legal mechanisms by which interests for the debts to the state individuals and institutions were pardoned.<sup>3</sup> The pharaohs generally tended to pardon the citizens who were imprisoned over the interest-bearing debt. This tendency is explained by the cultural codes in Ancient Egypt:

The bodies of citizens should belong to the state, to the end that it might avail itself of the services which its citizens owed it, in times of both war and peace. For he felt that it would be absurd for a soldier, perhaps at the moment when he was setting forth to fight for his fatherland, to be



hauled to prison by his creditor for an unpaid loan, and that the greed of private citizens should in this way endanger the safety of all.

(Hudson, 2002)

In general, the debt cancellation was limited to the debts payable to the state authorities and institutions. Private loans were thus excluded from the practice of debt cancellation.

Initial practices of debt cancellation were observed in the Sumerian era in BC 2400; the most popular practice, however, is the legal arrangements by Babylonian King Hammurabi. The debt cancellation was practiced in the Hammurabi code based on the premise that “the powerful may not oppress the weak; the law must protect widows and orphans (...) in order to bring justice to the oppressed.” References to the powerful, the weak, the widows and the orphans reveal the emphasis placed upon social justice (Toussaint, 2012). Debt cancellation, a frequent practice in Mesopotamia, was also practiced in Ancient Egypt as well.

Rosetta Stone, found along the River Nile by the troops of Napoleon in 1799 and exhibited at the British Museum, is an important source that presents interesting insights on this subject. The stone, containing texts and expressions in three different languages, reveals that the Ancient time pharaohs frequently relied on the practice of debt cancellation for political, social and military purposes. The cancellation of the debts in Ancient Egypt were based on two main motivations, apart from social reasons. The first motivation is the loss in tax revenues. Due to problems in the labor supply, economic conditions deteriorated which led to decline in the amount of tax monies collected. Thus, the state authorities decided that instead of keeping the debtors in prison, they should be released so that they would perform agricultural activities which would generate revenue. Another reason for the state authorities’ decision to cancel debts is relevant to military considerations. The inmates were pardoned because they were needed in the army that was in constant state of war with adversaries. Because of such reasons, the state administration tended to pardon those who failed to repay their debts in Ancient Egypt (Hudson, 1993).

## **Conclusion**

Modern economic theories take a holistic approach when viewing Ancient Egypt’s economic system. However, there is no clear deduction to be made about the distinction between public economy and private economy. Even though the economy seems to consist of private transactions, all of these are under the control of the kingdom. According to some researchers, despite the Pharaoh’s control, however, it is a market economy.

Because it is a kind of market economy, there is need for different methods of financing. It is hard to imagine these methods not including



interest-bearing debt. Interest, which was stigmatized in many societies throughout history, is limited in some shape, way or form in almost every civilization. Ancient Egypt is no different in that aspect. These legally based precautions were mostly enforced even though there were some hardships during some stages of history in enforcing them.

Interest rates up to 10 percent monthly create a situation against the favor of trade. In this context, merchants in Ancient Egypt become disadvantageous compared to foreign merchants. According to findings from the papyruses, interest rates rose to 50 percent or even 100 percent yearly. The reason for 100 percent not being surpassed is the Bocchoris law that bans interest revenue to be higher than the loan itself. As long as the debtor is alive, he is the only one responsible for the debt. Additionally, the validity of the contract depends on whether or not it is in written format. No non-written contract is binding. According to Bocchoris who noticed that these matters caused a lot of discomfort, wrongly formed borrowing transactions harm social stability and lead to the creditor dominating the debtor. Of course, the only responsibility is not the creditor's; there are many regulations regarding the repayments made by the debtors and the trouble they cause the creditor. According to that, the private property of the debtor could be confiscated, and this punishment could be continued until the debt is repaid. The creditor can only act on the private property of the debtor. Any punishment infringing on the personal freedom of the debtor is banned.

The enforcements made on the debtor usually to encourage them to repay their debts. Instead of debt enslavement, it is encouraged the debtors work and repay his debts. The punishments applied aim to increase consciousness about responsibility. In addition, the accountability of his close relatives for one's debts and one's inability to take a new loan until the existing debt is repaid provide a basis for strengthened personal bonds. There are many ways for a person to be born as a slave or to be enslaved in ancient civilizations. However, interestingly, debt enslavement is not allowed in Ancient Egypt.

## Notes

- 1 Bureaucracy is a privileged class in Ancient Egypt. Clerkship is one of the most important bureaucratic profession. Thanks to the established system, the clerks take part in the training of the nobles which is relevant to the delicacies of language. Priests are also part of a powerful and privileged class. Merchants and priests have full control over trade. The rest has little influence on trade activities, which are limited to local markets alone. There is slavery system in Ancient Egypt and slaves are often employed in homes of the nobles.
- 2 Interestingly, despite the fact that Ancient Egypt is one of the civilizations where the harshest taxation policies are implemented, historical records show no sign of popular unrest or dissent towards these policies.

- 3 It should be noted that social harmony is extensively covered in the theological sources of Abrahamic religions that stress that the poor should be protected and that the wealthy should give charity. Thus, debt cancellation and other similar practices are encouraged. For detailed discussion, see O'Connell (2000) and Hudson (1993).

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# Interest and debt in Ancient China

*Muhammet Sait Bozik and Murat Ustaoglu*

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In old Chinese belief,  
every birth to this world was based on the allowance of loan  
from “the Treasury of the Other World,”  
or “the Bank of Hell.”

H. Kwon

### Introduction

Communication facilities of ancient civilizations cannot be compared to the contemporary technology, but research shows that these civilizations were in contact with other societies and that they interacted with other in the cultural realms. The interest-bearing debt caused similar problems in different civilizations in ancient times. As a result of this communication, similar solutions were tried. It is only natural to see that people try joint action and collective attempts to address an issue that all civilizations encounter. To this end, a special emphasis should be made upon one of the ancient civilizations.

The Chinese civilization, which was home to Neanderthal and Homo Sapiens and referred to as ancestors of human beings, is one of the oldest civilizations (Dönmez, 2003). Canetti (2014) argues that the Chinese civilization is the one that adds greatest emphasis upon the notion of civilization in the history of mankind. Even though this seems to be a fairly romanticized argument, it is a proper depiction of a society that features distinctive characteristics when compared to other ancient civilizations. The unique characteristics of the literature and thought system is one factor that contributes to this distinction. The historical roots of the innovative approach which also affects the cultural fabric extend to the desire of protecting political and territorial integrity at a time when a number of small states fought. As a result, the same language becomes usable in the entire China. The effective usage of language leads to many innovations. Interestingly, some of the inventions and innovations that would change the course of history

would be used to enslave people.<sup>1</sup> For instance, Strauss (2014) argues that unity in language basically seeks to enslave individuals, also noting that the Ancient Chinese civilization that defines the Asian people within certain moral patterns makes itself apparent in the economic life as well.

Ancient Chinese civilization has a long history and strong mythological culture which also left visible impacts upon the debt transactions. Debt is part of the material life in the world; but in Ancient China, it is considered first step of the cycle that starts a life process. Metaphors used in the narratives suggest that life begins with loan received from the Bank of Hell and that it becomes meaningful as this loan is used properly.<sup>2</sup> Man, at least in theory, is able to make use of the life loan as long as he leads a modest life and stays away from material pleasures. When the loan is exhausted and the man dies, the loan should be repaid, the siblings will inherit this obligation. There is no precise information as to whether Bank of Hell charges interest for its loans, it is obvious that debt generates legal obligation even in the aftermath of death. The religious beliefs suggest that the dead, like the people alive, are subject to financial control; they will not be emancipated in case there is problem with their obligations (Kwon, 2007).

Apart from such metaphors focusing on the life after death, the issue of interest is not considered a major problem in Chinese civilization, which offers no serious analysis and criticism of interest-bearing debt. Because it is not regarded as a major problem in the society, the issue of interest is not reviewed from a legalistic perspective either. The interest-bearing debt is viewed as economic activities associated with certain needs. Thus, the Chinese civilization makes itself distinctive from other ancient civilizations. Asian rulers who define other civilizations barbaric collections rely on this approach to reinforce their rule.

## **Economic and social life in Ancient China**

The history of Ancient China offers some insights on the social and economic development of a society which has used script for millennia. Access to information and knowledge was easy in Ancient China because press and printing was invented long before Europe. Scholars underline that number of printed books in China up to the 15th century was greater than number of books printed in the rest of the world (Holcombe, 2016). But despite this wealth of information, it should be noted that many of the printed material have been unable to make it through the modern ages. Historical records offer some insights and data for a better understanding of some of the practices of Far East civilizations. In late ancient ages, small coins with a hole in the middle were in use in China; additionally, historical findings reveal that China enjoyed strong tradition of design and printing in the same ages; these are generally taken as part of trailblazing developments.<sup>3</sup> The spread of printed coins throughout the world is also an example of cultural

exchange and transactions (Eagleton & Williams, 2008). Ancient China had one of the most advanced and developed economies of the time. Through the end of the fifth century, the Roman empire started to decline while China was still one of the wealthiest nations.

Most ancient civilizations have experienced problems of income inequality mostly because of the economic circumstances. The primary reason is the greater emphasis placed upon the wealth of the nobles than importance attached to the prosperity of the people. The wealth of the higher classes further increases through the activities of temples or the state institutions. The people finance the excess amount; the society becomes poorer through borrowing. It is often observed that income inequality becomes worse among different members of the society. Historical excavations performed to illuminate the history of Chinese civilization reveal information and data showing that non-nobles were also able to accumulate wealth. There were many people from middle or lower classes who became rich through trade activities. The Buddhist temples provided financial aid for the people rather than playing a role through impoverishment of the lower classes. These findings alone do not suffice to give the impression that income distribution was fair in Ancient China. But it is an indication that Ancient Chinese civilization adopted a more ethical approach compared to the other ancient civilizations (Holcombe, 2016).

The Chinese civilization is characterized by mythos and heroes dealing with floods, irrigation and water collection techniques. Water has been at the epicenter of human development in the history of mankind and people have devoted time and energy to processing and transportation of water. In the direction of the societies, water is used as an instrument to make people more dependent upon the power circles of the state or the temples (Bauer, 2017). The processing and transportation of water in China has a longer history than other ancient civilizations. Water has also been part of the economic cycle in China. Archeological excavations reveal findings on oyster and clam shells in parts of mainland China, representing the primitive means of exchange of the time. Use of notions referring to the shells in hieroglyphs focusing on silver, trade and wealth confirms the argument that shells are integrated parts of the economic cycle of activities (Tanilli, 2017).

The Chinese civilization, featuring unique economic and political characteristics, also has important processes as a social structure. The Qin dynasty which can be taken as the root of the Chinese civilizations and ensure the unity of different communities in China holds a special place in the ancient Chinese civilization. Before the reign of Qin dynasty, the Chinese lands have gone through four periods: The Xia dynasty (2800–1800 BC), Shang Dynasty (1700–1027 BC), Chou Dynasty (1027–221 BC) and the period of fighting provinces which can be referred to as an era of chaos and anarchy. Before the Qin Dynasty, the parochial clan system was established through the kingdom. The king and the siblings were regarded as noble

lineage whereas his remote relatives were defined as relatives of kingdom who ruled the provinces in the periphery.

The kinship-based kingdom clan system has become politicized and institutionalized with the emergence of social and political hierarchy (Deng, 2017). The Qin Dynasty united Chinese clans and territories through a series of bloody wars. This territorial integrity has served as basis for the future rule of the other Chinese dynasties. The Dynasty sought to eradicate the pro-slavery state system and adopted a system of merit in place of the ruling system operated through members of the same family or lineage. The Chinese civilization became a feudal and centralist structure under the rule of Qin Dynasty, which also introduced cultural and intellectual revolutions. It should be noted that most street names today are inherited from the era of Qin Dynasty (Diamond, 2018).

During the rule of Shang dynasty, copper and bronze-made instruments became common; agriculture gained importance and silk emerged as an important political item. All these developments led to the collapse of the previous clan system and to the emergence of a slavery-based social structure that could be compared to practices in the Roman Empire (Kaya, 2018). Economy made significant progress in this period. People who became specialized in different fields particularly artisanship and agriculture started to play important roles. They created their own premises particularly in the capital city. Improved production capacity led to the division of the society into different classes, including the rich and the slaves.

Evidence from the Asian underground graveyard reveals the lines of division within the society along wealth in the Shang era. Among many graves where the deceased were buried with ordinary items, there were also graves hosting dead buried with precious items and weapons. The finding suggests that a master was buried along with his slaves. The qualities of the houses are also taken as confirmation for this division. The Cousins who took reign after the decline of the Shangs had to deal with significant economic problems due to the luxurious expenses and heavy taxes that made the people disgruntled with the administration (Diakov & Kovalev, 2017). After the reign of the Qin Dynasty, China started to abandon the slavery, addressed the problem of income inequality and took measures to improve general welfare level.

A review of the economic cycle in Ancient China reveals that barter system was used in the economic activities and that this system remained in place for centuries. On the other hand, money and coins were also used as means of exchange as well. Copper and iron-made coins with a hole in the middle served as standardized cash in small enterprises for 2,000 years. Large commercial deals were performed by use of gold or silver. Ancient Chinese civilization also performed transactions similar to contemporary wiring or fund transfer deals. This method involved drafting of a note which was invented to wire large amount of money to a remote area. Because it was hard to

transport large sums, the method remained unused for a long time (Homer & Sylla, 2005). Paper note has not been seen in Chinese civilization for 2,000 years after that.

### **Interest-bearing debt in Ancient China**

How did notion of interest emerge in ancient times? Etymological answers can be offered for such questions. A review of the meaning of the notion in Sumerian language to refer to interest reveals that the term also connotes calf. In Ancient Greece, the term used for interest also refers to baby cow. In Ancient Egypt, the term used for interest means giving birth. All these cases indicate that animal breeding is at the epicenter of economic activities. This offers some insights on how the interest was practiced in these civilizations. For instance, a Sumerian individual, when lending 20 cows, expects that he would take more than 20 back given that some of them will give birth to calves. The number of calves in this process can be roughly estimated. The number of cows will increase and the owner will become richer. Given that this person has nothing other than cattle, a certain interest rate is fixed in the transaction. The people at the time have no distinctive perceptions between cattle and standard currency. It is only natural for a person who view the cattle as standard money unit to expect an increase in this unit (Goetzmann, 2017). The idea of interest is based on plausible and concrete reasons for those individuals from a pastoral community; but it is not easy to explain the natural course of evolution of the term in economic orders with processes independent of a pastoral past. In ancient societies, as economic activities develop after the early period, the issues of income inequality and debt slavery associated with the concept of interest undermine the image of the practice as an immoral choice. All these served as the basis of the interest ban and restrictions imposed by religions and states in this process.

It is not possible, on the other hand, to have strong traces of restrictions, bans or regulations applicable to interest in Chinese civilization which holds a unique place among the ancient communities. It is possible to argue based on official records that there has never been an interest ban in China. Interest restrictions have been offered in theory, but they have not been implemented either. Yet in some cases, the governments introduced some regulations vis-à-vis valid interest rates. Ancient China is a civilization that provides inputs for other civilizations that followed. In this sense, it can be compared to Ancient Greece. In such civilizations, thinkers play a lead role in the development of the civilization. Aristoteles, Socrates and Plato have played major roles in the emergence and development of Ancient Greece; similarly, Confucius, Mencius and Lao Tzu have made great contributions to the improvement of the Chinese civilization (Huang, 1997).

The Chinese economic history can be explained through the review of two leading thinkers: Confucius and Mencius. Confucius and his pupil



Mencius cover moral issues in their speeches and sermons where they also promote integrity, tradition and respect for the rituals. In later centuries, their views were used to justify the welfare and wealth of the upper classes (Harman, 2017). Mencius argues that those who work by bare labor should be governed and those who work by their intellect should govern (Özmen & Buluş, 2017). In his speeches, Mencius also defined the minimum living standard as well. According to Mencius, those who reach age 50 should be able to wear cotton-made attire and those who reach age 70 should be able to have meat. These two are minimum living standards. Mencius also elaborated on income distribution, noting that personal income is not a priority and that the minimum living standards of the masses should be given priority (Huang, 2007). The teachings of these thinkers generated a minimum level of morality for the society.

Ancient Chinese thinkers, rather than viewing interest and profits as separate notions, tend to interpret interest as a criterion of profit. For instance, Confucius rarely objects interest or profit whereas Mencius strongly opposes the notion of profit and acquiring advantage in economic terms (Ware, 1960). So how does Confucius approach the notion of interest? He holds that in economic cycle, it is not wrong to take interest and that every person has the right to acquire interest in economic activities including charging interest. Confucius argues that it is legitimate to ask for an additional financial revenue in a transaction as long as it is based on mutual consent and performed in line with the agreed rituals of economic transactions (Waley, 1938). The interest has an etymological root similar to other ancient civilizations in the Chinese language; the term interest is expressed by *sheng* which literally means reproduction and something that is reproduced. In fact, this is not an unusual conceptual approach. Ancient civilizations are often inspired by the circumstances of the time when generating a term for a certain pattern of behaviors or acts.

In Ancient China, unlike other civilizations, the terms of interest and profit do not connote distinctive phenomena. The Chinese thinkers who contributed a great deal to the development of this civilization defined interest as the right of the person who perform economic activities and tend to prescribe interest rate by words such as small and little. This indicates that the thinkers did not intend to interfere with the issue of interest and the overall practice. The invention of money and expansion of trade activities contributed to the emergence of usury which then led to the debt slavery in China. Usurers who played a major role in Ancient Chinese society have emerged as a strong class in face of repression, persecution and enslavement of the aristocrats. Legally, they did not have extensive rights within the society and have been in conflict with traders over the course of Chinese history. This does not mean that the general public was not used as slaves and that they were saved from persecution. It only means that they emerged as a center of power against the class of aristocrats.

Borrowing transactions is another subject that needs to be reviewed within the economic cycle of China. There is little information on the loan structures and nature of the borrowing. However, it is still possible to argue that the borrowing in Chinese history are more developed than those in other civilizations. The interest-bearing debt in other civilizations allowed division of social classes, emergence of feudal order and empowerment of the temples as economic actors. From this perspective, the Chinese borrowing practices are more humane compared to the practices of other civilizations. In China, loans were delivered by individuals or pawnbrokers for purposes of consumption. Pawnbrokers hold a special place in the history of China as they are most probably the oldest creditors. The Buddhist monasteries performing functions similar to those of the Babylonian and Greek temples accept securities and deposits from people. The pawnbrokers lend the deposits and securities held by the monasteries to the rich and poor peasants as loans. These pawnbrokers, often in the Buddhist monasteries, performed their activities in service of the society. This line of profession that emerged in the ancient era remained the major source of loans up to the 19th century. But with the emergence of modern and conventional banking, its role has declined.

Another credit institution in Ancient China is credit unit which cannot be defined in institutional terms but is pretty common among the society. This is a type of credit association referred to in the economics literature as ROSCA (Rotating Savings and Credit Associations). In case a person needs an amount of money greater than he could ever save on his individual capacity, he joins an initiative where he himself, his relatives or neighbors make contributions to create a pool of funds and then withdraws a certain amount. Anybody in this system may, subject to the rules of the association, benefit from the pooled funds to meet his needs. This association, a fairly common economic activity and a collective system in Ancient China, was called she which literally means association or society. There are current practices and initiatives that resemble with this ancient practice. The people in Ancient China often used this system to finance funerals, weddings, emergency situations and manufacturing activities. A small interest rate is applied to the loan taken in these associations where three methods are used to access the funds: by proposal of the participant who makes large amount of payment, by the proposal of the participant who makes payment with the highest interest rate and by the proposal of the participant who prefers making payment within a cycle (Tsai, 2000).

In Ancient China, it has been a rare case to see loans for manufacturing purposes. In general, loans were provided for individual needs and pursuits. Loans for manufacturing activities which can be defined as commercial loans were used for speculative purposes in most cases. The loans were mostly focused on individuals simply because the interest rates were often higher than the possible profitability of the agriculture and industrial sectors. The

return rate of investment made for property ownership in China which always had an agriculture-focused economy has always been lower than the return rate of the investment made for the borrowing. These factors played significant roles in the individualization of loaning practices (Homer & Sylla, 2005).

Chinese credit history can be characterized by short-term loans (three to six months), often seen in consumption loans. As in other ancient civilizations, it is possible to see high interest rates in Chinese history as well; but these rates are mostly charged in times of war or natural disasters. Confucius holds that interest rate is naturally determined by supply and demand. Some of Confucius' followers determine this rate as the profit of one-tenth and consider a 10 percent of interest rate as ideal. It is possible to see the practicality of this rate in market. Wang-Mang who offered reforms to deal with economic stagnation in the Han Empire era suggested that the state should provide 10 percent-interest loan for the general public. While the interest rate was 10 percent in theory in this period, it increased up to 100 percent due to natural disasters. In case of wars, the interest rate spikes up to 1,000 percent. In practice, the interest rates normally were between 20 to 33 percent. Ancient China also features persons who provide loans on interest who are not considered usurers. These persons who perform a transaction of loans on interest as professionals are called interest experts. In addition, the state also provides loans. The interest rates in these loans varies by the region where the borrower lives. A person who lives in the capital may borrow at 5 percent of interest rate whereas a person who lives in suburbs has to pay 10 percent of interest rate for the money he borrows as loan. In the rest of the country, the interest rate ranged between 10 and 15 percent; the highest interest rate observed in the entire nation is 20 percent (Houkes, 2004).

The Chinese civilization does not codify any law that prohibits or restricts interest but prescribes some regulations applicable to the interest rates. Historical records show that the government introduces some rules and regulations applicable to the market rates as well as the maximum interest rates imposed by government upon the loans. Likewise, the Chinese civilization has always declared compound interest as unlawful. The first official code on interest was made in the era of Han empire. This law, suggesting that the nobles would lose their titles in case they charge excessive interest rate, is the first official code of Chinese history. In some periods, the state administration provided low-interest or interest-free loans for the farmers to protect their interests against usurers. Similarly, the government provided interest-free loans for funerals; interest-free loans were made available for local administrations in 10 AD. These interest-free loans for local administrations may be transformed into low-interest loans after a while. But in any case, the interest rate cannot exceed 10 percent for these loans (Pan, 1974). A review of the Ancient Chinese history shows that interest

rates increased dramatically after the Han Dynasty. The interest rates of the ancient times were not observed in other periods of the history. During the reign of Tang Dynasty, interest rates started to decline, but never to the lowest level of 20–30 percent during the reign of the Han Dynasty (Homer & Sylla, 2005).

## **Conclusion**

The first civilizations of the history of mankind paid special attention to the debt and practices; as such, the interest-bearing debt and interest-free borrowing transactions have acquired a significant hold within the social and economic processes of the societies. The history of Ancient China offers a different depiction of interest-bearing debt than the other ancient civilizations. Even though it is an exaggeration to argue that interest-bearing debt practices did not lead to a problem of income distribution and income inequality, it is fair to note that such transactions did not cause social disruptions and harms. Likewise, it is not possible to see empowered temples or clergy that dominate the realm of interest-bearing debt in Ancient China. From this perspective, Ancient China differs from other ancient civilizations. Buddhist temples have performed transactions involving deposition of securities or assets like the temples of the Mesopotamian civilizations; however, there is no information suggesting that they caused disruption among the public through the interest rates they imposed. These deposits were mostly used to create low-interest loans for the poor.

Additionally, unlike the Roman empire where interest and interest-bearing debt caused moral problems, Ancient China has not generated moral issues associated with the practice of interest. Thus, with the exception of small-scale arrangements on the interest rates, Chinese civilizations have not introduced significant bans or restrictions. Concept of interest is viewed as a certain amount of profit generated out of economic activities in Ancient China. Views of thinkers who recommended withdrawal from a greedy approach and stance in economic transactions generated a framework where interest rates have remained stable and reasonable, with possible exception of wars and natural disasters. Interest-bearing debt schemes were mostly employed to provide financial aid for those who are in need and for those who seek to deepen solidarity, in short, these funds were provided for individual purposes; thus, the interest-bearing debt has not caused serious disruption within the society. In Ancient China, like other civilizations, debt slavery has been observed; but these practices have never been grave enough to cause class stratification in the society. Ancient China was a strong state in terms of slave supply; as such, there were a huge number of slaves in this state. But the debt slavery associated with the interest-bearing debt practices has not been a grave issue. Based on this account, it is hard to argue that interest had a costly bill for the entire society in

Ancient China. But this does not necessarily mean that interest has been a useful instrument and mechanism. It could only be argued that the trauma and disruption interest-bearing debt practices caused in Ancient China was not as grave as the trauma experienced in other ancient civilizations due to interest-bearing debt.

## Notes

- 1 The number of accounts suggesting that people become digital slaves due to the disruption caused by the excessive use of technology in the modern society is on rise (Flores, 2018).
- 2 The notion of “Hell” does not hold a negative connotation in the Chinese language. Di Yu, literally means Hell in Chinese, refers to an underground courtroom where the spirits waiting for forgiveness over their sins in the world are kept in custody. The Chinese mythology explains that all people will come to the land of the dead, that Di Yu will decide what the people will do in heaven, transfer them to the land of the dead or attribute them a spirit in another body. The Note of Hell, similar to the traditional notes of the Western China and made of exclusive ancient Chinese papers, is a symbolic currency. It is presented to forefathers for use in the afterlife. In some mythological narratives, it is noted that the currency was sent for the afterlife. Yama, Buddhism and the Chinese mythology recall that in case they give this “bribe,” the King of Hell will save the forefathers from poverty and punishments (Smith & Matravets, 1970; Yogerst & Lloyd, 2005).
- 3 Around the fourth century B.C.

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# Dynamics of interest-bearing debt in Hinduism

*Ferda Güvenilir and Ahmet İncekara*

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### Introduction

Within a social and economic context, the issue of interest is not only part of the modern capitalism. A number of faiths and cultures in different parts of the world have elaborated views on this controversial subject. Policies corresponding to the curbing of the interest-related practices have been developed out of moral reasons or in consideration of their devastating impacts upon social harmony. The scripts of the Indian civilization incorporated such measures as well. Some scholars argue that the restrictive measures offered by Hinduism prove its emphasis upon the society and social harmony. A review of the Indian scripts at least partially supports this argument. The scripts often include detailed technical definitions on the interest-bearing debt and provide rules on who is entitled to performing such transactions and under which terms and conditions.

Viewed as a system of faiths that emerged out of the merger of different sects allowed within the Indian society, Hinduism offers an intrinsic philosophy (King, 1999; A. Sharma, 1986). The term Indian is derived from Persian original Hindi referring to people who live around the River Indus; the term refers to the people, the faith system of these people and serves as an umbrella concept, used for the first time in the 12th century by Westerners (Aydın, 2010; Yitik, 2014). Hinduism, on the other hand, a generic term serving as umbrella notion for Drahmanism, Brahmanism, Vedism and other faiths (O'Malley, 1935). Hindus generally refer to their own faith as sanatana dharma (eternal law) and dharma (a certain way of divine salvation) (Aydın, 2010). Most experts consider Hinduism an ethnic polytheist faith system which has a rich scriptural tradition. Hinduism has been influenced by other religions in the Indian Peninsula and gone a process of transformation (Chattopadhyaya, 2000). This transformation has generated a multilayered faith scheme under which people pray for one god but also believe in others in other layers (Sarma, 2005). There are many works on the myths, rituals and dogmas of Hinduism, tracing its roots back to 2000 BC; however, these scriptures constitute a monolithic block

rather than offering a process of evolution (Chaudhuri, Biardeau, Pocock, & Madan, 2003). A review of the scriptures is essential to better understand Hinduism's approach vis-à-vis interest-bearing debt.

### **Scriptures and reform initiatives**

Subsequent to the consolidation of the rule by Aris in the Indian Peninsula, the faiths of the Ari people and of the Dravid natives have interacted with each other, culminating in a mixed understanding. Buddhism, born in the Indian Peninsula, also had its own contribution to this amalgamation that served as the basis of the theological foundations of Hinduism.<sup>1</sup>

The religious prescriptions of Hinduism have been further shaped by the Western influence which is reflected in its religious arguments.<sup>2</sup> Sarma (2005) classifies Hinduism into three parts: classical Hinduism, medieval Hinduism and modern Hinduism. This enables researchers to examine each period by reference to its own dynamics. The classical era is the period where the foundations of Hinduism have been laid down. Vedas are the leading scriptures of this era; mainstream view suggests that *rigvedas* are divine revelations whereas the remaining three are commentaries. Other Vedas include *Atharya-Veda*, *Yajur-Veda* and *Sama-Veda*. *Upanishads*, although not as much as the Vedas, are also important sources of Hinduism. *Brahmanas* provide information on the periods after Vedas and serve as the commentaries of the Vedas. *Aranyakas*, recited in times of seclusion, examine the philosophical depth behind the religious ceremonies (Atasagun, 2012; Childe, 2006). Because no written record of the scriptures were taken at the beginning, it is hard to analyze these sources properly (Tokarev, 2006). The voluminous religious literature is divided into two main categories: *srutis* (based on revelation and inspiration) and *smitris* (based on reasoning) (Aydın, 2010). *Sruti* strictures include Vedas, *Brahmanas*, *Aranyakas* & *Upanishads* (Atasagun, 2012; O'Flaherty, Gold, Haberman & Shulman, 1988). *Smitris* literally means tradition and something that comes to mind.<sup>3</sup>

The *smitris*, focused on the daily interactions, are composed of stories, legends, myths and legislations and determine the prohibitions that apply to the members of all castes. For this reason, they are more influential than Vedas. The history of Hinduism is full of reform initiatives; Hinduism has been influenced first by Islam and then by Christianity, mainly through interactions with members of these relations (Smith, 2003; Tokarev, 2006). The first wave of transformation starts in the encounter with Muslims who founded an empire in the Indian Peninsula. Muslims made huge contributions to the Indian culture and geography making Islam part of the established culture (Eliot, 1998). Sikhism emerges out of this encounter as a new religion but creates sense of reaction and opposition among the public leading up to a more conservative version of Hinduism as well. Until the arrival of Muslims in the Indian lands, no significant differences between



various faiths are observed because they have existed within the same cultural habitat. Hinduism is able to assimilate all the different cultures before Islam (Sarma, 2005). But the peninsula starts to host diverse faiths subsequent to the establishment of Delhi Kingdom in the Indian lands in the 13th century.

In subsequent phases, Hinduism encounters with Christianity after British and French invasions. It is possible to speak of Western influence rather than of Christianity on reformist education. The Western education model forces Hindus to look at their own faith from a scientific perspective (Chaudhuri et al., 2003). The impact is not limited to education and this model also had observable effects upon religious rituals as well (Eliot, 1998). For instance, Brahma, Shiva and Vishnu in the polytheist structure of Hinduism are similar to the concept of the Trinity in Christianity. The Vishnu legend also bears similarities with the narrative of Jesus in Christian faith. Krishna was given a miraculous birth by a virgin mother (Kahraman, 2013). But number of rituals and dogmas that all Hindus honor in an agreement is pretty small (Tokarev, 2006). This is an important point to consider when examining the Hinduism's approach vis-à-vis the issue of interest.

### **Karma philosophy and caste system**

The idea of reincarnation and caste system has visible impact upon the social structure of Hindu community, including the way the issue of interest is addressed. It is not possible to offer a comprehensive approach toward the interest-bearing debt in Hinduism without properly explaining these two concepts. For this reason, the motivations behind the emergence of holy scriptures and literature should be first identified.

In a seminal work on the Indian history, el-Beruni stresses that just how the concept of Trinity matters for Christians and the concept of martyrdom for Muslims, the notion of reincarnation is that important for the Hindus (Yitik, 2014). Reincarnation basically refers to transfer of the spirit from one body to another. Not only human beings, but also animals are part of this process of reincarnation. The good or evil deeds performed in a lifetime determine the type and quality of life in another body. Because of this belief, the approach vis-à-vis wealth in Hinduism is different from the approach upheld by other civilizations, and also is one of the factors that keep the caste system alive.

The caste system, basis of the division of the society in classes and layers, is explained in the scriptures of Manu Smitri (Erdoğan, 2015). Even though it is officially prohibited in legal terms, the caste system is still visible particularly in rural areas. The caste system suggests that Purusha (Divine Being) assigns different missions to different groups. To this end, Brahmins, according to Manu Smitri, are given the task to teach holy scriptures, perform ceremonies of sacrifice and accept gifts; the Kshatriyas, the class of

princes and military servicemen, play a role of defending the people under their rule against enemies; members of the Vaishyava class, including traders, farmers and animal breeders, perform duties in relation to provision of supplies for sacrifice ceremonies, sharing wealth with other people, performing trade and farming activities; Sudra, class of workers, peasants and slaves, is obligated to serve other groups (Adam, 2015). Considering that inequalities create serious problems over the time, suggestions have been made to allow transitions and shifts through the castes. But the karma faith makes these attempts futile.<sup>4</sup>

### **Hindu approach toward interest-bearing debt**

Transformation in economic systems serves as one root source of debt for individuals. Prior to the advance of monetary system in the history, some economic goods have become subject to debt (Gregory, 2012). For this reason, it is possible to spot such debt transactions before the widespread use of money as well (Chapra, 2001). This explains the regulations and arrangements on debt in ancient times in the Indian Peninsula (Visser & Macintosh, 1998). Dharma-Katras serve as the basis of information for the regulations and arrangements applicable to interest ban and debt. Manu, Yajnavalkya, Gautama, Visnu, Narada, Brihaspati and Katyayana smritis also contain regulations on interest-bearing debt (Mukerji, 1958).

Initial arrangements on debt was devised in the period of Vedas, the early phase of Hinduism. The theological sources do not address the issue of debt within the context of financial or material relations alone. Instead, the debt is divided into three types of obligations including debts toward god, teachers or mentors and ancestors. The debts toward god are performed through sacrifices, those toward the mentors and teachers through recital of Vedas and those toward the ancestors through hard work. Death and rebirth in the karma philosophy make the cycle of debt a permanent case. For this reason, the concept of debt holds a special place in the lives of Hindus. In case of failure to pay the debt, the borrower has to live a life in a lower status in the other life. The loans on interest have generated serious difficulties for individual lives and undermined the Hindu faith as well (Dixit, 2012). Failure of payment the debt is a condemned act in Hindu philosophy.

Rigveda, considered primary scripture by all Hindus, and other scriptures of the Veda period regard unpaid debts as acts of grave sin. Rina refers to general debts whereas kushida connotes only material debts. Debt is addressed in scriptures as a means of friendship that generates utility among peers. Rigveda makes mention of Rina a few times but contains no statement on interest. Similarly, Upadishads have no expression on the concept of interest but deal with such issues as debt and wealth accumulation in a negative tone. The sources refer to some sanctions on debt in the period of Vedas but provide no substantial information on the interest-bearing debt (Dixit,

2012). It appears that emphasis is placed upon repayment of the debt rather than the interest. The poor debt transactions negatively affect the economic atmosphere and trade activities.

Frauds are often committed in debt. For instance, a religious source, Kalavilasa, tells a story of a merchant for pretends to be deaf to avoid payment of his debt. Likewise, Rajantarangini narrates the story of a wealthy trader who fakes bankruptcy in order to avoid payment of debts. In general, the creditors have discretion over the debtors, in addition to the severity of debt terms, the creditors often charge high interest rates; this is why scriptures cover the debt extensively (Jamwal, 1995). Baudhāyana, referring to the term *kushida*, views the debt as an activity of the Vaishya caste. The recognition of debt acts in general legalizes the interest-bearing debt; over the time, such acts are crossed off the list of sinful acts that lower the status of the individuals in the caste system (Dixit, 2012).

Debt was performed by use of gold or economic goods in ancient times. Despite strong opposition against wealth accumulation in Upanishads, the interest rates were around 15 percent. Economic circumstances offer an explanation for the high interest rates despite religious condemnation. People have to borrow money due to economic hardships; the political authorities, ambivalent between the need for money and the negative stance in scriptures, attempts to maintain a balance resulting in emergence of concepts such as *Vardhusa* and *kusida* that apply to debt. *Kusida* refers to legally and religiously allowable interest rate whereas *Vardhusa* refers to extreme interest rate. A typical agricultural economy, Indian society is characterized by wealth accumulation in the hands of landlords. The poor, the farmers and the peasants suffer from the consequences of interest-bearing debt. In reaction to this economic imbalance, *Vardhusa* practices are condemned.

## Types of interest in Holy Scripture and interest ban

There is detailed information on different kinds of interest in the *smritis*. In the *Gautama*, six different kinds of interest are mentioned: compound, periodic, conditional, daily and hypothec interest. *Manu* which was rewritten later mentioned four kinds of interest. This raises the question of whether the two different kinds of interest that were not in *Manu* were added later (A. Sharma, 1996). In *smritis* from later eras, some had four some had six different types of interest mentioned. In *Nara*, periodic, commercial, conditional and compound interest were mentioned. *Manu* has a negative view of commercial, conditional and compound interest and condemns them (Mukerji, 1958). *Brhaspati*, on the other hand, gives more thorough explanations of interest and its kinds. *Kayika*, which is translated as commercial interest, can be shortly explained as the use of an animal that was taken as repayment for the loan. In other sources, it is used to describe a kind

of interest that needs to be repaid by doing physical labor. Periodic interest is monthly interest and compound interest is one that is taken every day and never stops increasing. Conditional interest is the borrower's acknowledgment that he will pay higher interest rate than normal in the event of an extraordinary change. Another kind of interest-bearing debt is interest with hypothec where the creditor is allowed to use the house or cultivate the farm that was given as a hypothec. Alongside all of these, there is kind of interest that grows if not repaid and thus is likened to hair. Even though there were minor changes in practice the terminology regarding kinds of interest can be summarized.

Debt transactions not only alters the economic landscape of a nation but also plays a major role in the formation of social and moral principles. This is especially apparent when the troubles interest caused in different civilizations throughout history. Interest was subject to certain limitations, bans, and regulations as a result of this. Regulations regarding interest, which is a concept that deeply affects social and political stability, are made with references to religion. The power and validity that religion has in society's eye is a big factor in this. The Indian society's perspective on interest is mainly built upon religion. The matter of interest was taken into consideration very differently in different times due to the dynamic nature of Hinduism. The caste system which is an inseparable part of the belief in reincarnation is a very critical factor in this.

Usury, as was in most moral belief systems, was condemned and seen as unacceptable, however the ever changing social and political dynamics alters the view on interest. Even though there is no change in the main principles of the scripture, the approach toward interest becomes more and more forgiving. The holy scriptures of Hinduism evolve and take their current form. When encountering other religions, the interaction and diffusion experienced had an indisputable effect. In addition to these, the tendency of Hindu philosopher to interpret scriptures differently definitely had a role in the emergence of different opinions on interest. This gives birth to the necessity to evaluate Hinduism's view on interest by taking multiple opinions into consideration. Otherwise, the possibility of a holistic accurate analysis disappears.

### **The variance of bans and regulations on interest and its evolution with time**

Worldly desires such as the desire to make a fortune during the time of Vedas are not taken well and condemned. A life that prioritizes desires is seen as an obstacle in the process of reaching eternity and being free. A similar approach is observed in the Upanishads. The failure to get rid of desires and breaking the cycle birth/death avoids people from reaching eternal freedom. A person in this situation traps his soul in a vicious cycle. Sometimes the

strict approach toward desires is observed even about the most basic needs. The irrational steps taken without considering the effect interest-bearing debt would have on economic life has some ironic consequences. Even though it is constantly stressed that the Veda based principle that has a negative view on legitimate desires that are in people's nature should be followed, the observation that there are people trying to make money from interest-bearing debt is one of the most interesting examples of this irony. There is theological evidence of this strange irony.

Hinduism does not allow all Hindus to earn money from interest. The lawmaking authority and the teachers of the scripture, Brahmins, try to take a midway in the *smritis* and the practice. In the scriptures of Vasistha and Budhayana, Vardhusa (extreme interest) is described to be as sinful as murdering a Brahmin, but in the same scripture, it is allowed to take 1/80 of the capital monthly and Vaishyas to live as kusidas (usurers) (Dixit, 2012). On the other hand, Baudhāyana Brahmins and Ksatriyas ban kusida even in times of danger, but even this has its exceptions. It is acceptable to take interest from those that do not fulfill their duties, do not read the Vedas and do not work. Manu and Vasistha condemns the Brahmins for acting like usurers. It is not allowed for Brahmins to take interest even in extraordinary conditions. However, it is allowed for Brahmins to lend the money or property that people need for religious rituals, with very low interest (Satyarthi, 1968). Baudhāyana defines Vardhusa which is extreme interest to borrow with low interest and loan with high interest.

Manu and Vasistha condemn the Brahmins for acting like usurers. Even in extraordinary situations, the Brahmins are not allowed to take interest money. However, they are authorized to supply money for people in need of loans who need that fund to perform their religious rituals on a small interest rate (Satyarthi, 1968). Baudhāyana defines Vardhusa referred to as extreme interest rate as debt at small rate and loaning that fund at a higher interest rate. The Brahmins and Ksatriyas, the upper classes in the caste system, are not allowed to perform Vardhusa type of usury given that they may abuse their powers within the society. The Vaishyas are exempted from this prohibition; their revenues include interest activities which generate a sizable amount of profits for them (Mukerji, 1958).

Even though diverse views are spelled out for the other castes in scriptures, there is agreement on the permission attributed to Vaishyas. The privileges recognized to Vaishyas in relation to interest-bearing debt indicate the importance attached to the caste when it comes to daily matters. One of the things that determine the sphere of influence of the caste is their position by which interest rates are identified. They have discretion on deciding as to who will borrow money and at what rates. Some resources offer data on this matter. Even though rates differ according to the type of caste, it becomes evident from the classical scriptures that an interest equal to twice the original amount is allowed in gold. The interest rate for grains is threefold of

the original amount of what is loaned. The rules that apply to grains also apply to flowers and fruits as well. According to Vasistha Dharma Smriti (II, 44–48), the interest rate for commodities measured by weight is eight times of the original amount.

Gautama, Āpastamba, Baudhāyana and Kautilya smritis contain no information on the interest rates applicable to the members of different castes. Vasista Dharmasutra is the first scripture to provide details on different interest rates for different castes. Brahmins borrow at 20 percent, Katriyas at 36 percent, Vaishas at 48 percent and Sudras at 60 percent on an annual basis. The interest rates in Manu is around 2–5 percent (Satyarthi, 1968). It is interesting to see that Brahmana and Ksatriyas castes are recognized privileges despite that they do not participate in production activities (Mukerji, 1958). Manu and Gautama ask for rearrangement of all debts in line with social traditions but there is no clear information on what the term social tradition means in the scripts. According to Manu and Yajnavalkya, affirmative action is recommended for Brahmins particularly in regards to terms of repayment (Satyarthi, 1968). Practices of charging different interest rates for different castes are also observed in Gautama, Baudhāyana, Āpastamba and Kautilya smritis composed in early period (R. S. Sharma, 1965).

In ancient time Vedas, Brahmins and Ksatriyas are not allowed to take interest. According to Gautama, Brahmins cannot perform usury as a professional practice and they can make revenue out of usury provided that it is restricted to the times of disasters (R. S. Sharma, 1965). However, it should be noted that not all smritis are of the same view and that some of them oppose this approach. One reason that interest-bearing debt is not allowed is to make sure that Brahmins preserve their respected status within the society. Smriti and Sutras hold the king responsible for the economic needs of Brahmins. According to Manu, the king may not touch the wealth of the Brahmins even in times of disaster. But this does not apply to Brahmins who may confiscate the assets of the Sudras when they deem it necessary.

However, smritis composed in later times authorize the Brahmins, under certain conditions, to perform activities of usury and interest-bearing debt because of the rising costs of ceremonies and rituals. For instance, despite that Manu prohibits practice of interest-bearing debt by Brahmins and Ksatriyas, in case of duress, they are allowed to borrow loans on interest. However, the Manus drafted in later times change this scheme. According to Manu commentaries of Medhatithi in 900, the god Vasistha endorses 1/80 of the interest rate, which has nothing to do with greed (R. S. Sharma, 1965).

Records indicate that interest-bearing debt has been known in the peninsula since 500 B.C. The interest rates vary by the castes. The interest rates are determined by reference to economic goods where money is not used as a widespread instrument. Due to this technical issue, interest rates are determined in some resources in terms of percentage; but when this is not possible, the rates are determined in fungible terms. The rates spelled out in

Vasistha are almost identical to rates spelled out in Narada and Visnu; however, Brhaspati provides different rates for different goods and commodities (R. S. Sharma, 1965). The interest rates for durable and tangible assets are high whereas economic goods that decay easily are subject to low rates.

Interest rates increase gradually in smritis. The annual interest rate is 10 percent in Baudhāyana whereas annual rate in Gautama is 15 percent. The interest rate in Gautama is also spelled out in other scriptures composed in the period also known as era of Christianity. This rate applied to loans provide in return for a bill or mortgage increases to 24 percent where there is no mortgage. Vrddha-Harita identifies the interest rate without bill or mortgage as 30 percent. In the ninth century, the interest rate has gradually increased to 24 percent annually. The trend for rise in interest rates in the Gupta era (200 BC–300 AD) is attributed to the circumstances of the time including low money supply and shrinkage of foreign trade (Satyarthi, 1968).

The way Hinduism deals with the concept of interest in economic terms has a great impact upon the diversity of interest rates. Sen (1910) attributes the changing rates by time, castes and circumstances to the dominant approach of Hinduism. Manu views interest as the cost of risk associate with the use of money. For this reason, high interest rates are charged against members of high-risk castes, whereas members of low-risk castes are able to borrow at more reasonable rates. Due to the economic inequality generated by sociocultural structure and circumstances, the risks associate with priests, soldiers, traders and technicians from different caste groups are also different. The perception of interest as the cost for the use of money can be explained by exercise of different interest rates for the loans used in trade activities. According to Kautilya, legal interest rate is 15 percent whereas interest rate for loans provided for trade could be 60 percent; loans taken for trade involving crossing of forest areas may be subjected to interest rate up to 120 percent; and interest rate of 240 percent may be applied to loans used for overseas trade activities. Yajnavalkya also provides different rates for trades performed through different routes (R. S. Sharma, 1965). Likewise, Narada and Brishaspati Smriti offer different interest rates by risk (Mukerji, 1958).

## Conclusion

Hinduism has been a religion where restrictions and practices applicable to practices of interest have been ineffective due to its encounter with other faiths and the internal features. Hinduism has been influenced by different cultures and civilizations including Buddhism, Islam and Christianity because it is a polytheist religion and does not have a central leader like a prophet and thus generated a blend of these cultures. Arrival of a scientific basis for Hinduism is attributed to works by scholars who received Western-style education. The history of Hinduism is divided into three eras: Vedas, also known as classical Hinduism, Medieval Hinduism and Modern Hinduism.



The smritis, holy scriptures introduced in classical and medieval eras, contain regulations and provisions on the practice of interest.

The main unique aspect of Hinduism is karma philosophy and caste system which divides the people into different castes including Brahmins, class of clerics and scholars, Ksatriyas, class of kings and soldiers, Vaishayas, class of farmers, traders and artisans and Sudras, class of workers and slaves. The philosophy suggests that a person must remain loyal to the caste for eternal freedom, if this is done, he will be elevated to an upper status in another life. In that case, a person becomes an integral part of a cycle; by virtue of being a part, the person shall never feel discontent.

In early times, interest is considered a legitimate source of revenue whereas subsequently, only two castes are allowed to take interest. The Brahmins who hold a privileged status within the society are banned from taking interest to avoid abuses. Brahmins who are able to take interest from sinners may also charge interest in case of social and economic disasters. However, smritis introduced in the period between 200 BC and 300 AD contain statements that prohibit interest for Brahmins. A review of the smritis drafted in later times reveals that Brahmins are allowed to make use of interest only in times of disasters. Manu, on the other hand, reassures interest ban for Brahmins. The Manu commentary by Medhatiti in 900 notes that interest-taking has nothing to do with greed for wealth, this commentary once again justifies practice of interest for Brahmins. Different castes make revenue out of interest-bearing debt; interest rates are different for different castes. For instance, Manu, one of the smritis, contains provisions on varying interest rates depending on the castes. Depending on the status of the caste, different rates of 2, 3, 4 and 5 percent are implemented. For the Brahmins, on the other hand, as an advantage associated with their status within the caste, are recognized leniency in the repayment of the debts.

## Notes

- 1 The opposition and reaction to Buddhism also had its impact upon the Indian culture as well. This era visibly contributed to the birth and emergence of the sacred text culture, the cornerstone of the Hindu faith.
- 2 According to Hindus, a divine scripture cannot be penned by humans. The notions and definitions in Hinduism give the impression that its faith system has a unique outlook. However, lack of attempts and efforts to elucidate these notions and definitions makes it difficult to examine its historical evolution. (Chaudhuri et al., 2003)
- 3 Smitris include Mahabharata, Ramayana, Prana and Dharma-Śāstras. For details, see Adam (2015) and Atasagun (2012).
- 4 The caste system has remained alive for one simple reason: everybody is a human being; and human beings perform acts and behaviors as a whole, making the system connected and integrated through the karma. The caste system has been formally abolished in the Indian constitution in 1949. See Kaan (2010).



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# Interest and debt in Buddhist economic doctrine

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### Introduction

It is not easy to understand the economic behaviors with reference to one discipline. Sociologist Parsons (1991) associates his social systems theory with the network of economic, political and sociocultural relations of the entire society. This network is shaped by the economic and political structure, as well as the sociocultural outlook of the community where the individual lives in. obviously, norms regulating the economic relations have a determinative impact upon this integrated network.

This also applies to the Buddhist tradition. The social and geographical circumstances under which Buddhism has emerged affect its approach toward the economic relations. In other words, even though it is a unique faith, Buddhism was unable to create its own independent approach toward economic relations; instead, it contributed to the redefinition and reinterpretation of these relations in relationship with the customs and the past.

With its philosophy, mission, rituals and its religious scripts, Buddhism is one of the oldest faith systems in the world (Günay, 1999).<sup>1</sup> Siddharta Gautama, born as son of Shakya tribe's king in Nepal in 563 BC is the founder of this faith (G. Tümer, 1992). He is named Buddha which literally means seeker of truth in Pali language (Mohapatra, 1990). Gautama, at age 29, decided to lead a life in seclusion in seeking the truth (Günay, 1999). His journey lasted seven years after which he started delivering sermons. In fact, Buddha did not intend to find a new religion. His goal was to develop a new lifestyle and philosophy based on moral values (Karataş, 2013).

Buddha raised objection to the polytheist tendencies of his time and the hedonistic norms and instead tried to build a system based on love, compassion and modesty. In essence, he argued that animals and people have the same spiritual characteristics and that the spirits are transferred to new bodies through reincarnation. This cycle ends when the spirit achieves Nirvana (Yılmaz, 2007). His teachings are based on four premises: that human beings suffer from dissatisfaction, illness, aging and death, that desires and ambitions are the root causes of pain, that Nirvana should be achieved to attain peace and that Nirvana can be achieved through an

eight-layer path (G. Tümer, 1992). Those who take this path achieve Nirvana and ultimate salvation (Aydın, 2010; Bodhi, 1999).

Buddha left no apostle or script behind to convey his teachings; but his experiments and suggestions were transferred through verbal accounts which, however, led to controversies; in an attempt to devise a record of his teachings, councils were convened in different times and places. Only three of these councils have gained a legitimate status: Rajagaha, Vesali and the one compiled by King Asoka (G. Tümer, 1992). The first written scripts were compiled in Pali language in the second century; additionally, Jatakas also contain literal narratives on Buddhism (Mohapatra, 1990). The leading scripts of Buddhism include Tri-pitaka, which literally means “three baskets,” Vinaya Pitaka, which covers rules of monastery and Sutta Pitaka, which features the sermons of Buddha, and Abhidhamma, which explains the philosophical and ethical aspects of the teachings of Buddha (Yitik, 2014). Buddha’s teachings were taken under record after his death; his teachings were in some respect revolutionary, for instance, he advises his followers to stand against segregation or a hierarchical division in the society. However, the roots of caste system associated with Brahmanism, the oldest religion of India, were so strong that Buddha’s teachings failed to remove the barriers (Yilmaz, 2007).<sup>2</sup>

In this society where labor is defined and constructed in accordance with the rules of the caste system, it is not possible to remove social division and segregation immediately. Given that labor is an important element of human capital, anything that affects labor also affects human capital. As change appears in social classes, some transformation on the economic habits and practices should also take place. Holy scripts present a number of suggestions of Buddha on economy. However, the Buddhist doctrine, unlike the approach held by the classical economics, refers to the sentiments that direct the psychological and economic activities.

### **A doctrine of Midway in reconciliation with nature: Buddhist economy**

According to mainstream economics, economic behaviors are shaped by demand, choice, consumption and utility (Payutto, 1992). Thus, the way that a theorem approaches these concepts also gives insight into how it covers economic matters. The emphasis Buddhism places upon these concepts suggests that salvation is attained when human beings distance themselves from their desires because needs can be met but desires cannot be ultimately satisfied.<sup>3</sup> Even if money is poured down from the sky, it is not possible to satisfy the desires of human beings.<sup>4</sup> Buddhism recognizes chanda, which literally means desire and tanha which literally means ambition. Chanda refers to real values whereas tanha connotes virtual values. The real value of a commodity is its ability to meet a need and its virtual

value is about its ability to address a certain pleasure and desire. A similar approach is employed in consumption, divided into two as good and bad. Need-based consumption is legitimate whereas *tanha*-based consumption is wrong. Unlike what the modern economic approach suggests, Buddhism promotes minimization consumption (Payutto, 1992).

Buddhism argues that actions that inflict pain or harm upon other creatures will determine the fate of the perpetrator in another life (G. Tümer, 1992). All these premises constitute the basis of Buddhist interpretation of the economy, arguing that materialistic progress and spiritual improvement are not against each other. However, the Buddhist economic approach deals with the economic activities relying on two perspectives, spiritual and philosophical perspective. Noting that the choices and progress in character will positively affect the karma and spiritual enhancement toward self-actualization, Buddhism argues that mental health and spiritual values are far more important than economic growth.

The people of modern time have found the pragmatic approaches of Buddha that promised salvation interesting. Some economists even criticized capitalist model by reference to Buddha's views. The Buddhist economy theorem by Schumacher (1974), who placed emphasis upon harmony between economics and religious values, underlines the protection of common values such as nature and environment. The roots of green economy can be traced back to this argumentation. This approach basically argues that the modern production and consumption models based on the exploitation of the nature should be substituted by the simple and peaceful lifestyle as promoted by the Buddhist philosophy (Aktamov, Badmatsyrenov, Rodionov, Nomogoeva, & Badaraev, 2015).

Buddhist economy, like the modern literature, is divided into two branches: micro and macro. The theoretical basis of the macro discipline is based on economic recommendations for the monarchist rules.<sup>5</sup> Economic problems like poverty cannot be resolved without recognizing the universal responsibility of the political authorities in respect to the distribution of wealth. For this reason, an administration that does not rely on a strong economic background is politically weak. The micro dimension, on the other hand, is built upon the adoption of a lifestyle by the monks and nuns (*sangha*) in the monasteries and by the individuals of the society in reference to the teachings of the doctrine (Ritthithit et al., 2017). In essence, the main idea of the Buddhist economy is to adopt a moderate (or midway) approach in line with the teachings and ethical values of Buddha without causing damage to the nature.

## Money in Buddhist economy

A Buddhist monk, Phra Subin Panito, acquires firsthand experience of the people's economic problems in Thailand in 1997 when he decided to collect

charity for the people in need after the devastating financial crisis. The local people were dealing with pressing economic problems where the crisis destroyed the entire economy. All macro indicators in the country referred to a real collapse in the economy. The people further suffered extensively from the repercussions of the interest rates that moved up to 20 percent. Panito who wanted to do something for the community founded a saving fund, named the Sacca-Saving Group, based on Buddhist principles (Sirindharo, 2009). This organization, a reaction to the dire consequences of the financial crisis, seeks to offer solutions for the chronic problems of the people including poverty and unbearable debts by devising an alternative financial model built around the Buddhist principles and precepts. Even though there is no strong basis of information to properly evaluate the performance of the Sacca-Saving Group, it is certain that this initiative brought about a new perspective for the lending-borrowing transactions of the local people. Some economists argue that the Buddhist principles should be taken into consideration for a proper discussion of potential solutions for existing economic crises. While some of the prescriptions of this model seem to be appealing, there is still uncertainty as to whether they can properly address major economic problems because it is not possible to argue that the model delves into the financial issues. The differences between the modern theories of finance and this approach is the main area of controversy and source of uncertainty on the viability of the model.

Buddhism views money as a commodity. What makes a commodity good or bad is the meaning attributed to it and how it is utilized.<sup>6</sup> Money cannot be sanctified just because it provides ability to sustain life; but poverty cannot also be promoted. Quite contrary, poverty and debt are seen as huge problems.<sup>7</sup> Instead, people need to spend efforts to make a living by reliance on legitimate methods. But interestingly, Buddha stipulates that the monks (*bhikkhus*) who would prefer a life in the monasteries (*samgha*) should not make and accumulate money, suggesting that they should become beggars for a living (Spiro, 1982). Despite this simplistic lifestyle, there is historical evidence that the monks have accepted monies through foundations.<sup>8</sup> Particularly the traders and merchants lent money, in addition to grants, to the monks who distributed some of these funds to others on different terms that dictated payment of interest (Schopen, 2004). Except the monks, there is no restriction that applies to other social classes and individuals in terms of wealth accumulation. The holy scripts even commend the huge wealth of Anathapindika, one of the apostles of Buddha (Payutto, 1992). The scripts also draw a roadmap for making money that would be utilized for helping people.<sup>9</sup> It is not possible to give charity unless you make money; and charity is the road to salvation; otherwise, desire for wealth becomes source of misery and agony (Mohapatra, 1990). The accumulation of wealth, after spending money for regular needs, makes an individual worthless because wealth is for all (Walshe, 2012). Buddha, however, also recalls that people

need to be cautious when helping others because they need to take care of themselves as well; he further describes the functions of money as fulfillment of the basic needs, use for various expenses, charity and reserves for future needs.<sup>10</sup> Buddhism recalls that people tend to spend money for other pursuits as well, but this would not produce any good because happiness cannot be bought by money.<sup>11</sup>

## How Buddhism approaches debt

There are two types of institutional structures focusing on interest-bearing debt; these two institutions evolve through interaction with each other. Usury is the informal mechanism and plays a huge role in the emergence of financial sector, and is practiced by wealthy merchants and rich families (Madestam, 2012). Like other parts of the world, the Indian peninsula is also a place where this practice has been widely performed (Jain, 1929). Despite that religious teachings preach a simplistic lifestyle, the Brahmanist literature covers the concept of borrowing and debt.<sup>12</sup>

The first records of borrowing and lending were found in the Veda scriptures of the Vedic era (2000–1400 BC). Rig-Vedas, the oldest of Vedas, frequently make mention of debts.<sup>13</sup> However, these scriptures only rarely contain rulings and legal arrangements on interest and debt. Expressions like, “My God! I am under a huge debt to make money,” are considered proof of borrowing and lending transactions in economic life (Bhargava, 1935). Emphases in the scriptures suggest that the interest-bearing debt disrupted the social harmony and led to poverty. Debts are categorized as individual/private and national/international.<sup>14</sup>

What matters in Buddhism is the psychological consequences of the debt. In case of failure of repayment, the debtor might be degraded by the creditor who might also resort to extreme methods that would undermine the honor of a human being (Upali, 2009). Natural debts and coercive debts might also be added to the types referred to above. Natural debts are debts under the responsibility of the individual or of the nation. The case is different with the coercive debts. The circumstances that would force the individuals or the society to borrow debt might be created deliberately. Whether the debt is individual or national in nature does not matter because the factors are almost identical in both cases.

The Buddhist economy doctrine makes some recommendations for the state as well. The first concerns the principles of taxation in a typical rural economy whereas the second refers to the interest-bearing debt. For instance, King Ruang, who ruled Thailand in the 14th century, formulates the state’s financial responsibilities as keeping the tax levies to the agricultural products at below 10 percent and lending interest-free funds for those who want to perform trade activities (Pryor, 1991). Both recommendations are constructive for the development of economic life. Low tax rates

promote production; and interest-free loans contribute to trade; but it is not possible to argue that interest-free loaning has been widespread in the past. Buddhism also suffers from this dilemma. The Jataka narratives in the Sutra scriptures contain expressions that define loaning as honest trade (Rapson, 1922). For instance, the sharing of revenue (crop surplus) that a farmer makes out of farming activities based on a loan he receives from a capital holder with the loaner is defined as partnership. But there is no precise information on the amount of repayment to the capital holder in case no revenue is made out of the agricultural and farming activities. These texts for the first time feature the notion *kusidin*, which literally means usurer. However, the sources offer no information on the interest rates and the technical definition of interest (Jain, 1929). Usury is seen as one of the illegitimate means of acquiring wealth as it is believed to be disruptive to the social peace and harmony (Barua, 2015). Despite these moral sensitivities, some professional groups engaged with trade and production are recognized some privilege, some of these groups are allowed to make revenues out of interest-bearing debt. This authorization is sealed by the Brahmani clerics who hold the most privileged status in the hierarchy (Rapson, 1922). Even though members of the upper class are not allowed to make revenue out of interest, they are able to pay interest for the loans they receive. Interest rates are subjected to some restrictions as imposed by the caste system. The maximum annual rates are 24 percent for clerics, 36 percent for military servicemen, 48 percent for merchants and 60 percent for the workers (Jain, 1929). Prescription of these rates indicates the presence of the idea that interest is a right for the capital holder who lends his/her financial assets. The reason for the prohibition of interest-bearing debt/loans is that the respected members of the upper class should not make revenue out of the people in need because in the Buddhist tradition, it is not legitimized to cause unhappiness for others while meeting own desires and needs (Elster, 1985). Buddhism is unable to remove the social hierarchy and traditional institutions in the Indian society and instead, it preserves the economic approach that protects the privileges of the people of status. In this system, individuals in lower classes are responsible for the debts of their forefathers.

The caste hierarchy is a natural barrier before professional change and entrepreneurship. The upper class that controls the land and trade also has influence over labor market, in this way, the labor force becomes more dependent. This order where the wealthy exploits the weak further results in extreme practices under which people have to sell their kids or wife in order to receive loan (Jain, 1929). It is not possible to argue that a radical change has been made in Indian peninsula after Buddhism. On the one hand, Buddhism recommends a system focused on production and individual; on the other hand, the former traditional social norms continue to reign in the society.



The privilege recognized to Vaishyas has grown into the practice of usury in form of monopoly, constituting the basis of the lower class and a new type of business. This lower class which provides financial funds at high interest rates and makes huge amounts of revenues is called *Vridhipajiv*. Even if its illegal practices are condemned and discredited by many, the class continues to grow. This line of business which exhibits not much difference than the current-time practice of usury becomes widespread and enjoys popularity (Bhargava, 1935). Usury, viewed as a means of risk-free money-making, attracts attention; as a result, many people from different classes seek to become rich through interest revenues. This leads to partial removal of the barriers between different classes. Normally, change of class in the strict caste system is not allowed. However, the Buddhist sources indicate authorization of such a change in some instances thanks to the changing economic structure after the rise of demand for loans. For instance, a cleric may become engaged in practice of usury when he becomes a merchant after giving up on his privileges associated with his class.<sup>15</sup> For instance, a prince also gives up on his privileges and practices usury for more revenue.<sup>16</sup> However, it should be noted that the forfeited rights cannot be reacquired; those who change their classes become subject to the rules applicable to the new class, and their children are also born into the same class and the same category (Bhargava, 1935).

In the *Smitri* period, the state offers some arrangements on the interest-bearing debt, including restrictions on interest rates (Bhargava, 1935).<sup>17</sup> The political authorities, noting that the people are being heavily exploited by the unrestricted institutions which impose high interest rates, transform the institutions of usury into official financial institutions. The employers in these appropriated institutions are declared bankers. This era is known as the period where the foundations on the banking sector in India have been laid down (Jain, 1929). These official financial institutions consider the objective of those who seek loan and the risk involved in lending funds, as well as the reputation of the receiver within the society (Bhargava, 1935).

On the other hand, some institutions of usury which provide microfinance also continue to exist unofficially. This leads to emergence of an interest rate imposed by the usurers other than the official interest rate dictated by the state in the markets. These institutions particularly provide loans for those who are unable to get funds from the state; despite the higher rate of interest they charge, these institutions survive due to the growing demand within the society. The usurers in general provide funds for those who seek loans without imposing any strict requirements; but they are often blamed for exploiting the members of the society as they become extremely rich due to their activities (Brook, 2007; Jain, 1929; Madestam, 2012).

This indicates that there are significant differences between the religious and sociological assumptions and the practice of interest. The Manuscriptures, noting that the monetary interest should be paid periodically,

underlines that the amount of interest cannot exceed the principal amount. The scripture contains two sections on the reacquiring of the debts and mortgages (Jain, 1929). Interest may be charged for grains, fruits and wool; however, an upper limit is set up for this type of loaning. Additionally, the laws also prescribe fines for those who fail to observe these restrictions and limitations (Bühler, 1886).

Financial experts and lawyers have conflicting views on the practice of interest. They offer a structural categorization by identifying some determinative elements denoted by (i) *kayaka*, (ii) *kayak*, (iii) *chakravridhi*, (iv) *karita*, (v) *shikhavridhi* and (vi) *bhogvallabh*. *Kayaka* refers to the payment of interest through physical labor, *kalika* to payment in installments, *chakravridhi* to payment as compound interest. *Karita* is a surplus conditioned between the lender and the borrower before the contract. *Shikhavridhi* indicates that the interest continues to grow as long as the principal amount is not paid. The final concept resembles with the approach of modern-age economists. *Bhogvallabh* says that interest should be treated as a lease. In other words, just like a landlord receive rent from the tenant, the lender actually leases his money to the borrower (Bhargava, 1935).

Buddhism discourages people from receiving loans; borrowing or lending money is often condemned in the society. But despite this, it should be noted that there are some responsibilities attached to borrowing and lending relations. The primary sanction for failure of repaying the debt is prohibition from participation in the monastery community (*sangh*) and collective religious rituals (Jain, 1929; Rapson, 1922). Buddha who says a debtor is in fact a slave recommends restriction of the desires; he compares desires to fire and notes that this fire needs to be put out in order to attain Nirvana (Payutto, 1992). He attributes his own enlightenment to extensive efforts and avoiding attempts to satisfy his desires, suggesting that desires should be taken under control.<sup>18</sup>

Graeber (2011) notes that there is little information on the authors of Vedic scriptures, adding that there are no clear findings on the interest-bearing debt in the Indian society of the time. Some others also join this argument; thus, it is not easy to make a precise statement on this complicated matter. The issue has been handled in a way similar to the approach in the post-Industrial Revolution era; the debate has been mostly about the limits of interest rate, rather than complete prohibition (Noonan, 1957). Centuries later, Smith (2006) notes that interest ban will provoke illegal practices of usury and that unless alternative methods by which the society will have access to capital are devised, interest will be part of economic activities. For this reason, he stresses the need for legal arrangements to control the interest practices. Almost identical to this approach, the Buddhist doctrine also prescribes some limitations for the interest and creates some regulatory and supervisory institutions to implement the relevant rules (Joshi, 1970).

## Conclusion

In Indian society, the privilege of making revenue out of loaning is attached to the Vaishya caste. Members of upper classes who enjoy a certain level of welfare and reputations are not allowed to make profit through loaning activities involving people in need. But this privilege has become source of a new line of business because it attracts attention of people from different classes of the society. Viewed as a risk-free means of profit, usury becomes widespread among different segments; in recognition of this problem, the public authorities allow change of class to join this line of business. Even though usury is not socially accepted, its popularity requires additional arrangements and state intervention to reduce social cost. In an attempt to address the problem of high interest rates, the public authorities prescribe certain limits for interest rates applicable to different groups of the community.

The Buddhist doctrine does not completely liberalize interest and offers legal arguments to regulate the interest-bearing debt. These arrangements complete the institutionalization of the interest-bearing debt practices, laying the foundations of the contemporary financial sector in India. However, the impasse between the moral values and the market demands becomes evident. Buddhism never adopts a negative approach vis-à-vis money; but excessive accumulation of wealth and ambition for greater wealth is often condemned. Buddhist monks, on the other hand, are required to stay away from monetary affairs because Buddha asks them to give up on prosperity and worldly materials. The monks who prefer living in a monastery may take charity from the people; Buddha argues that those who give charity will also attain eternal happiness.

## Notes

- 1 Whether Buddhism is a religion or a philosophical approach remains controversial. Those who argue that it is not a religion recall that it does not come up with belief in God. Some scholars, on the other hand, argue that it should be considered a religion in reference to supernatural notions including karma, reincarnation and Nirvana (G. Tümer, 1992). Siddharta Gautama, born in 536 B.C. as son of the king of Shakya tribe in Lumbini village of Oudh Province in Nepal, is the founder of this religion (G. Tümer, 1992). He was named Buda which, in Sanskrit and Pali languages, means knower of the truth (Mohapatra, 1990). He was deeply affected by the bitter reality of life when he witnessed that a living creature had to kill another one for its own survival. Based on this experience and observation, he attempted to offer an explanation for life in the world. In an attempt to seek answers to the questions in his mind, he left everything behind at age 29 and took a long journey through which he hoped to discover the meaning of life (Günay, 1999). After seven years in this journey, he came to a conclusion that he experienced a state of enlightenment

in Bodhi Gaya where he started to deliver his sermons. In fact, Buddha did not intend to start a new religion, his intention was to develop a morality-based philosophy that he called a middle-way purified of extremes (Karataş, 2013). He argued that in essence, animals and humans have the same spiritual basis and that spirits are transferred to the new bodies through reincarnation. This cycle of pains ends when the person reaches Nirvana. Buddha expressed opposition to the polytheist structure of his time, the caste system and the hedonistic tendencies and instead built a new system of thought based on love, compassion and self-satisfaction. He further served as a guide for those who pursue enlightenment and happiness and argued that he, transmitting his own experience, helps people address their own painful experiences (Yılmaz, 2007). His teachings include the arguments that human existence is shaped by evil, illness, advance age and death, that desires and ambitions are sources of pain, that Nirvana should be reached for lasting peace and that Nirvana can be achieved through an eight-phased path (G. Tümer, 1992). For enlightenment, this eight-phased path (*ashtangamarga*) should be traveled. Those who take this journey will eventually achieve Nirvana and embrace salvation (Aydın, 2010; Bodhi, 1999). Like the ten commandments in Judaism, these principles and path constitute the basis of the Buddhist faith. All these teachings are expressed by three main Buddhist themes: *sila* (purification of actions and discourses), *Samadhi* (strong focus of the mind) and *panna* (wisdom) (G. Tümer, 1992). The eight paths under these themes include the following: *samyak-drishti* (proper grasp and comprehension; the way we comprehend a phenomenon serves as the basis of our actions and reactions; misunderstanding is the source of pain); *samyak-sankalpa* (proper thought and intention; for a happy life, the thoughts should be purified; greed and hatred lead to pain); *samyak-vak* (speaking the truth; a person should be truthful to himself and to the others; he should be honest and gentle); *samyak-karmanta* (acting properly; a person needs to avoid any wrongful acts that do harm to the creatures with feelings because unhealthy acts lead to unhealthy minds); *samyak-ajiva* (proper lifestyle; things a person does to meet his needs should be void of harms to others; for this reason, gun trade, selling living things, butchery and trading spirits are all prohibited business engagements in Buddhism); *samyak-vyayama* (effort for self-improvement; it is not easy to accomplish all these, therefore, the mind should be set to right thoughts); *samyak-srñrñiti* (proper awareness; distractive engagements in the journey toward enlightenment should be avoided, this requires awareness and vividness); *samyak-samadhi* (proper concentration; meditation is a right tool to do this) (Bodhi, 1999; Mohapatra, 1990). However, interestingly, the primary sources contain no information on what would happen after death.

- 2 Legal systems generally recognize a privileged status to the lender, leading a hierarchical relationship between the lender and the borrower. This is believed to be the basis of a hierarchical division in the societies (Maine, 1866). Caste system is a telling example of this division; the practice is believed to have appeared in India under the influence of Brahmanism 2000–1500 BC (G. Tümer, 1992; Wilson, 1979).
- 3 See Vinaya-Pitaka, I:9 and Dhammapada: 251 for detail.
- 4 See Dhammapada:186, 187 for detail.

- 5 The macroeconomic recommendations adopted from the Buddhist doctrine include the following: (i) *dharmādhīpateyya*: standardization of justice and righteousness by the rulers, (ii) *dhammikārakkhā*, a just rule by the monarchs, (iii) *māadhammakāra*; prohibition of wrongful acts to protect the society against exploitation, corruption and repression, (iv) *dhanānuppadāna*: Ensuring that the poor use the economic resources for a decent and honorable life, (v) *paripucchā*: when necessary, consulting with the guides and opinion leaders for public utility. Micro economic recommendations are classified as monastery lifestyle and individual lifestyle. For more details see (Ritthithit, Leeka, Tongpan, & Srisaard, 2017).
- 6 See Anguttara Nikaya, I:250; Majjhima-Nikaya, II:163 and Samyutta-Nikaya, I:82 for detail.
- 7 See Anguttara-Nikaya, III:352 for detail.
- 8 Mūlasarvāstivāda-vinaya scripts indicate that the monies accepted as donations were also lent to others for additional revenues. (Schopen, 1994)
- 9 See Anguttara-Nikaya, II:53 for detail.
- 10 See Anguttara-Nikaya, III:45 for detail.
- 11 See Anguttara-Nikaya, X:46 for detail.
- 12 Schopen (2001) Debt is categorized as religious, anthropological and financial debts.
- 13 Debt, *ina*; lending debt, *inna-ddna*.
- 14 Financial debts are considered very important to the extent that in some cases, the obligations are to be borne by the heirs after the death of the debtor. Peebles (2010) reviews the legal status of the financial debt by a monk after his death. For detailed account of the anthropological narrative of the debt relations, see Peebles (2010).
- 15 See Jataka, 4:15 for detail.
- 16 See Jataka, 4:84 for detail.
- 17 AC 100–500.
- 18 See Anguttara-Nikāya, I:50 for detail.

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# Interest and debt in the ancient era

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### Introduction

Agricultural production, which became prominent with the use of water, reshaped the economic life and the debt transactions. Some historians argue that this new era where new distinctive social classes including farmers, rulers, bureaucrats, merchants, clerics and fighters have emerged is the start of transition to an antidemocratic order where liberties and freedoms have been restricted (Tanilli, 2017). This era, marked by one of the radical transformations in history, also affected the economic relations and affairs as well. Interest-bearing debt have first emerged in the era of agricultural revolution. Goetzmann (2017), arguing that the concept of interest emerged within the natural and inherent economic conditions of the ancient civilizations, further asserts that borrowing transactions were first based on living economic goods including animals. For instance, when 30 cows are lent to someone as debt, number of the cows may increase within the debt period. Therefore, the lender should have his own share of the addition. When this logic was applied to the agricultural production, interest has been endorsed and justified as the right of the lender.

In the ancient economies, characterized by a typical exchange economy, wheat, oat and other similar goods were used as means of payment. The approach upheld by the ancient civilizations toward money is, compared to contemporary approach, ordinary and simple. In this era, the main function of money is to serve as an instrument of exchange. This function has been determinative on the norms of interest-bearing debt. In the agricultural economies, the harvest time became a determinant in all economic activities. The use of agricultural products as instruments of payment directly affects the main principles regarding the debt, particularly those relevant to means of payment, time of payment, terms of payment and sanctions imposed in case of non-payment. The political authorities did not consider the interest-bearing debts as a major problem as long as the they have been paid in time. The legislations played their role in case of failure of repayment. As the problems grew, different measures and sanctions were



introduced. Attention paid to the measures for ensuring the repayment of the debts in the ancient civilizations had strong impacts upon social life and the economic situation. The political authorities finally had to take measures against the issue of interest after realizing that the problems caused by the practice of interest, particularly debt slavery, led to social upheavals and popular uprisings. But despite measures ranging from abolition of interest to stipulations and restrictions that applied to such transactions, no lasting solution has been achieved. The measures devised by political authorities in ancient civilizations mostly focused on law and theology. The theological teachings have become part of the legal system as sources of norms that regulate social and economic interactions. For this reason, the measures to deal with the issues regarding the practice of interest inevitably paid attention to some theological arguments. But interestingly, in some regions, clerics and religious figures were the most significant usurers in the society. The issues regarding the failure of repayment forced the rulers and the legislators to take legal measures. Given that similar actions are taken even in the modern times, it becomes evident that the issue of interest is a fairly controversial problem that has been part of discussions throughout the history.

### **The interest and debt in ancient civilizations**

Evolution of the society often required drafting of rules and frameworks to sustain the social order. This included creation of legal systems that would back up this order. Legal texts on the ancient eras reveal that the legal norms developed in these periods sought to regulate the economic life as well. The findings on the Sumerian, Babylonians and Assyrian civilizations show that there are many rules governing the economic relations, showing the need for such regulations (İldız, 2013; Maloney, 1974; Tosun & Yalvaç, 1989).<sup>1</sup>

Development of legal system and law has made significant progress in ancient Mesopotamia in the aftermath of the invention of the script. The commercial activities that became more dynamic after the agricultural revolution also contributed to this process. Archeological findings reveal that the commercial contracts often involved clauses and terms on the use and practice of interest in the transactions. It is interesting to note that these contracts also often included details indicating importance attached to legal protection. The detailed information in them have been determinative in the implementation of the interest-based transactions. Given that the terms were identified beforehand, no serious complaints should have been expected; but the changing nature of the terms and circumstances often led to complaints by the defaulting parties (Peebles, 2010).

The ancient Mesopotamian temples were the main source of the issues on the practice of interest-bearing debt because they were experts on usury. The temples also maintained strong control over economic activities and were merciless toward local people. For this reason, it was very hard for a local to

repay his debt. Given that loans on interest were often asked for autonomous consumption purposes, the problems led to serious repercussions including debt slavery. This is why political authorities have sometimes resorted to legislative measures; historical findings reveal that in some cases, the debts were absolved, that the political authorities set ceilings for interest rates and that loans on interest were subjected to thorough legal norms (Maloney, 1974; Tosun & Yalvaç, 1989). The legislative instruments also contained terms and rules on the interest revenues, the restructuring of the debts, the personal wealth management, property rentals, the duties and missions of merchants, the obligations of the workers as well as sanctions to be imposed in case of violations. However, these measures fell short to generate peace for the community.

Interest-bearing debts were first recorded in the times of Sumerians in the contracts. The temples took records of these contracts in tablets featuring the nature and content of the transactions, describing the obligations of the parties and other relevant information (Akrep, 2017). Such records contained valuable information on the nature of the interest-based borrowing of the time and showed that the average interest rates were between 40 and 140 percent. In rare instances, however, the interest rates were as high as 240 percent (Delaporte, 1925). Given that the ancient civilizations were typical agricultural economies; it becomes evident that such high rates would eventually lead to serious social problems including enslavement of the parties failing to repay their debts. Due to the price that the society had to pay, the political authorities introduced measures to respond to the problems associated with debts. These measures included interest ceiling, legal sanctions imposed in connection with the repayment of the consumption goods, public conclusion of the debt transactions, limiting the slavery in connection with debts to three years, consent of the spouse in borrowing deals and restrictions to the interest-bearing debt transactions by temples (Stein, 1994).

Mesopotamian civilizations experienced similar problems in connection with interest-bearing debts. The Assyrians who paid a great deal of attention to trade because they lacked arable lands made extensive use of interest; they created an advanced economic model owing to the trade relations they maintained with neighboring areas (Koçak, 2009). The Assyrians, experts on foreign trade, were talented in administering the interest-based transactions. The interest rate that applied to the debts between fellow Assyrians was around 30 percent, whereas they charged more for the loans they lent to aliens (Küçükbezci, 2011). Interestingly, the usurers became more powerful and influential while the temples declined. As a result, the local people preferred the usurers because they were victimized by the temples. Unable to maintain a steady sustenance due to the high interest rates, the local people suffered from impoverishment. The political authorities, similar to what happened in Sumerians and Babylonian cases, took measures to address the

problems the local people had to deal with. However, the measures the political authorities introduced failed to offer permanent solutions.

Ancient Greece is another civilization where high interest rates were condemned because it was viewed as obstacle to social welfare. Leading thinkers in the society criticized the interest because it caused a wide range of problems. Plato argues that interest was an immoral act and that it should be prohibited because it causes corruption in an ideal social order. Aristoteles (1975) who argues that interest revenue is against the nature and the notion of justice notes that interest is to be hated because it is revenue associated with money rather than its product. From this perspective, money could only be an instrument of exchange whereas interest refers to increase in the value of the money. In other words, interest is something that was given birth by money; as such, interest revenue is against the nature. Historian Platurque compares the usurers to greedy hawks that tear their preys into small pieces (Pıçak, 2012). Despite opposition by the politicians and philosophers on the interest-bearing debts, interest has become a norm in Ancient Greece where one of the strongest financial mechanisms in history has been established. The city-states expanded the horizons of naval trade, which then resulted in the emergence of bank-like institutions specialized in lending money.

In Ancient Greece, use of interest in trade activities and financial transactions was pretty common, often involving temples, banks, state institutions, private and public personalities and foundations. Overall, the interest rates were not low and appealing; in general, interest-based loans were transacted for use by the associations and foundations, small-size enterprises and naval traders. Temples usually picked private persons to lend interest-based loans whereas bankers often financed mortgaged loans. The public institutions relied on other cities, temples and private persons to receive loans. Interest rates for short-term debts were pretty high; usurers were particularly eager to charge more in the case of interest-bearing debt transactions (İldız, 2013). The most popular debt scheme was loan on interest in small amounts lent to the poor people. Because the interest rates were high in these loans, the lenders were eager to proceed with this type of loaning. Since production in Ancient Greece was dependent upon labor supply of the poor and the slaves, these high interest rates negatively affected the economic state of affairs (Finley, 2007).

Another popular type of interest-bearing debt in Ancient Greece was the financing of the seafaring trade, which involved high risks. Due to the risk factor, only assurance by the private persons was acknowledged; for this reason, the interest rates went up to 40 percent in different cities and times. The contracts usually were made for less than a year; and the payment schedule considered the sailing of the vessels. The changing nature of the maritime affairs had its own reflection in the debt contracts. In some instances, there was no restriction to the interest rates whereas in some

others, high interest rates were declared illegal (Böckh, 1851). The lenders, despite the risks, showed interest in this type of transaction because of the large amount of revenues.

Political authorities also needed interest-bearing debt in Ancient Greece. Despite steady incomes and revenues generated by new conquests, the state frequently relied on credit options offered by local people, temples and other city-states. The cost of debt varied depending on the circumstances. For instance, the temples charged interest whereas local people lent interest-free loans. Some temples which maintained close ties with the state administrations gained greater popularity and political influence, turning into strong financial centers and serving as institutions similar to contemporary central banks whose actions and decisions deeply affected the economic climate. While officially the interest rates conditioned in the credit deals concluded between the temples and the political authority were 1.2–6 percent, the overall cost has always been around 10 percent (Ildiz, 2013).

Ancient Rome is another community where interest-bearing debt generated deep-seated problems. It was one of the main concepts that constituted the foundation of economic life and activities in the Roman empire. The loans on interest, mostly demanded by members of lower classes in the society, led to serious problems; some historians argue that these problems played role in the fall and dissolution of the state authority (Finley, 2007; Goodson, 2014). The popular masses often rioted against the central government due to the problems generated by interest-bearing debt. Literacy works of the time incorporated striking statements and descriptions referring to the practice of interest that was compared to something that slaughters the people. The measures the political authorities attempted to take, similar to cases in other civilizations, failed to produce a lasting solution.

One frequent method that has been employed was introduction of legal restrictions to the interest rates.<sup>2</sup> The political authorities, aware of the probable consequences of riots motivated by the problems high interest rates caused, introduced legislation referred to as *Leges Liciniae Sextiae* requiring determination of the amount of interest according to the amount of original debt. Subsequently, the interest ceiling were further reduced and steps were also taken to completely prohibit the practice of interest (Ildiz, 2013). The Senate ruled that all citizens would be entitled to making use of the public lands and that the debtors would be recognized the right to reducing the amount of interest from the original amount. At the same year, the interest ban was lifted by the law of *Licinius*. The law required that the amount of interest may not exceed the principle amount and that in the case of repayment, a new three-year period should be recognized. Limitations on interest rate were reintroduced by the *Lex Duilia Menenia* that was adopted a decade later. The law identified a fixed interest rate of 10 percent; when this measure failed, a referendum was held to set new rates. The *Lex Genucia*, adopted a few years later, prohibited the practice of interest once

again (Livius, 1999).<sup>3</sup> *Lex Poetelia*, on the other hand, lifted the debt slavery and issued pardon for the debts that previously led to this type of slavery (Tanilli, 2017).

The similarity between the economic conditions of the ancient Rome and the other ancient Mesopotamian civilizations reveals itself in the evolution of the interest-bearing debt transactions as well. Most local people did not have arable lands; as a result, those who performed agricultural production usually used lands of others. Due to insufficient amount of harvested crop, natural disasters and invasions, those who relied on agricultural production had to borrow interest-based loans in order to pay the rent of the lands they used. In most cases, the debtors ended up being enslaved due to inability to repay their debts (Tanilli, 2017). Restrictions were introduced to the interest rates by *Lex Sempronia*, adopted after popular riots in protest of the institution of debt slavery. The history of the Roman empire is full of examples that the political authority sought to address the interest issue. These failed attempts, however, led to even worse problems.

The crisis that emerged around 300 led to deterioration in the purchasing power of the currency; this also negatively affected those who borrowed on interest and who lent such loans. The rapidly declining rates rocked bottom at times when ceiling rates were in effect as prescribed by *Unciaria Lex*. The legislation which prohibited taking interest from senators put the usurers into a difficult position as well as the senators who were unable to borrow. Instead of directly borrowing, the senators used minors to overcome the legal barriers. In the end, exclusive rates were identified for the senators and the interest ban was lifted. The law on ceiling rate that remained in force until 528 was abolished by Justinianus who reintroduced the ceiling rates. Subsequently, a five-year moratorium was announced to deal with the debt issue in Italy and Sicily, and compound interest was abolished (İldız, 2013).

After the reign of Christianity in the Roman empire, theological arguments started to have impact upon interest-bearing debts. Despite strong rules against the practice of interest in the scripts, the church did not adopt a firm stance in opposition; in years to come, however, the church placed emphasis upon moral teachings suggesting that loaning should be done without expecting something in return. Up to the medieval age, the church referred to the major moral principles in defending the immorality of interest. In this short period of time, interest ban has been associated with moral justifications and firmly honored in the history of the Roman empire.

The spread of usury was referred to as one of the factors that contributed to the economic collapse of the Roman empire. The state, unable to deal with repeated riots by people who were unable to repay their debts, eventually had to delegate its authorities on the supervision of the people to the class of nobles who created their own markets and commercial centers within the well-protected castles and compounds. Interest-bearing debt also became popular within these compounds where the rich and the powerful

made enormous amounts of fortunes. The nobles eventually created their own autonomous feudal entities which also attracted the backing of the church (Diakov & Kovalev, 2015).

Ancient Egypt also pursued partial solutions to the interest issue through legal arrangements. The legislative body spent efforts to introduce restrictive measures even though interest-bearing debt transactions were legally allowed. These measures included terms stipulating that the amount of interest may not exceed the amount of principle (Maloney, 1974). The law extends the obligation to the close relatives in case the original debtor dies; the purpose is to maintain a sense of responsibility among the people on the debts. The measures further included stipulations that the debt transactions should be in writing and legally endorsed. Deals not meeting these requirements were not considered legally binding.

What distinguishes Ancient Egypt from other civilizations is subscription to some legal and theological principles that transformed a free man into a slave. As the interest-bearing debt transactions became widespread, problems observed in other ancient civilizations were also detected; as a result, debt slavery was formally prohibited. According to the Egyptian legal rules that paid greater attention to morality, the obligation of the party that received loan was limited to the assets under his property. In other words, any sanction that would affect the freedom of the debtor would not be allowed because the bodies of the people were considered public good, which would be useful in times of war. This is why the liberty of the debtor was under the guarantee of the state (Wilkinson, 1878).

Another legal rule adopted to address interest-related problems in Ancient Egypt was the one that sought to protect the interests of the loaning party while preventing any significant increase in the principle. Under the laws, nobody was able to borrow without the assurance given by his father or close relative as those who give such assurance will remain responsible in case the debtor dies. In such instances, in addition to legal sanctions, theological sanctions also take effect. Compared to other ancient civilizations, the legal arrangements in Ancient Egypt offer greater protection for the debtors; however, in case of failure, the debtor will suffer public humiliation. In addition to peer pressure, theological sanctions extending beyond death play a deterring role and function. For instance, when the debtor dies without honoring his debt, no ceremony is held and he is not allowed to be buried alongside his forefathers unless his relatives repay the debt. The lender party may even ban any visit to the grave of the debtor (Wilkinson, 1878). The ultimate goal is to raise awareness among the public on honoring the debts. The historical records reveal that the interest rates were on the range of 0–50 percent in Ancient Egypt, relatively smaller than rates in other civilizations (Ackerman, 1981).

The approach upheld in Ancient China vis-à-vis interest-bearing debts was different. It is hard to argue that there was strong and firm stance

against the practice of interest. In some instances, the political authorities took action to regulate the interest rates; but in general, we cannot speak of a comprehensive stance toward a total ban or official restriction. The economic climate in Ancient China had its own unique norms embedded in its cultural codes. Leading thinkers Confucius and Mencius, who placed emphasis upon moral values including integrity, tradition and ritual, appear to be key actors that foster this climate. Mencius argued that those who offer their physical strength should be ruled and that those who offer their mental strength should rule justified the tacit acknowledgment of poverty by the general public and of wealth and prosperity of the ruling class (Harman, 2017; Özmen & Buluş, 2017). Additionally, he argued that general public should be able to make a living that would enable them to lead a decent life, suggesting that the general welfare of the people is far more important than the individual prosperity (Huang, 2007). These teachings that prioritize cumulative utility contributed to the identification of a minimum level of collective morality. It is also possible to argue, however, that this collective morality was neglected historically when it came to interest-bearing debts; the philosophers tended to consider the notions of profit and interest together; according to Confucius who stressed that taking interest in the specific conditions of the economic life is to be allowed and every individual is entitled to enjoying certain utilities in an economic transaction, any extra revenue in an economic activity is justifiable in case this activity complies with the traditional rituals and the participants express consent (Waley, 1938). Confucius, referring to interest as a form of profit, did not strongly object to the concept and practice of interest. But Mencius disagrees with Confucius and strongly opposes his view on the nature of interest (Ware, 1960).

This cultural fabric and code which describes interest as some sort of personal and individual entitlement in economic activities draws a psychological boundary in terms of permissible interest rates. Most thinkers and philosophers preferred remaining within the scope of this framework on the concept of interest and the rates. This is partly attributed to the lack of interest in debt transactions in Ancient China. While debt scheme had visible impacts upon the emergence of feudal structures, the division of social classes and the power struggles between different factions in other civilizations, problems to be associated with debt transactions were not often observed in Ancient Chinese civilization. Interest-bearing debts were generally demanded for consumption purposes from individuals or pawn-brokers who were in close contact with the monasteries. The goods that the people deposited with them were redistributed to the parties asking for loans on interest. Additionally, the so-called *interest experts* also offered loans on interest, the rates both suppliers charged were almost identical.

Apart from professional suppliers, the state also served a source of credit for general public. In addition to individual loans, the state administration



provided low-interest credits for farmers in order to protect them against usurers, for funeral expenses etc. and for the local administrations. The loans for local administrations were at the beginning free of interest whereas up to 10 percent of interest was charged (the exact rate depended upon the need of the state; see Pan [1974]). The interest charged by the state varied by the residence of the debtor. Those who lived in the capital city had to pay 5 percent of interest whereas suburb residents received loans on 10 percent; people in the rest of the country often had to pay 10–15 percent (Houkes, 2004).

Interest-bearing debts were demanded mostly for consumption purposes; only in rare cases were such loans provided for trade activities. Commercial loans, on the other hand, were mostly used for speculative purposes. The rates applicable to short-term consumption loans were low compared to the rates in other civilizations in the same period. The views of the philosophers on the concept and scope of interest were determinative in this. Confucius views the interest rates as a natural outcome of the supply and demand cycle. His followers, based on his moderate views, suggested that a 10 percent of interest is acceptable in economic transactions. However, in practice, the rates generally remained above this moral threshold. For instance, in the time of Han Empire, the state administration, despite its decision to keep the rates at 10 percent, offered loans on a rate greater than this threshold. Ancient Chinese authorities introduced some arrangements on the rates; however, there was no ban on the practice of interest. The most notable legal arrangement was the law under which nobles would lose their status if they charge excessive amount of interest to the principle. In some periods, the interest rates went up under the hard economic conditions whereas in some periods, they remained at steady levels (Homer & Sylla, 2005).

Interest-bearing debts affected the lives of the people in Indian peninsula as well in ancient times. Hinduism, one of the oldest religious belief in the world, out of both moral and economic motives, offered some rules and principles applicable to the interest-bearing debts. Scripts provide detailed information on the conceptual framework of the interest as well as how it should be practiced. The types of interest spelled out in religious scripts included compound interest, periodical interest, conditional interest, commercial interest, daily interest and mortgaged interest (A. Sharma, 1996). Like the other civilizations that relied on moral considerations, Hinduism condemns extreme interest rates and usury. However, this strict stance was eroded by the changes in social and economic circumstances. Upanishads, referred to as one of the oldest scripts, criticize wealth and possession. However, the Smritis contain arguments that justify the practice of interest. Even though there were no significant change in the core gist of the theological teachings, the practical hardships and changing circumstances laid the ground for the contemporary norms.



Buddhism and Christianity which gained popularity in the peninsula played a role in bending the strict rules against interest. The Smritis, composed in classical era and early medieval age, contain detailed rules on debts in form of goods and money; the texts use different terms to connote types of debts and obligations. The scripts, on the other hand, do not leave the debtor to the mercy of the loaners and seek to maintain a balance between the interest and the realities of economic life. In order to finance commercial activities, members of two castes were allowed to make revenues out of interest; but overall, the concept and practice of it was condemned (Mukerji, 1958). But this stance changed over the time; initially, the clerics were not allowed to charge interest due to considerations that it might lead to abuse of power and privileges. However, since the fourth century, they were allowed to make revenue out of interest in a limited number of instances (R. S. Sharma, 1965). Starting in the ninth century, the ban was completely lifted for the clerics in reference to the argument that interest revenue had nothing to do with ambition of making a fortune.

Interest-bearing debts had determinative impact upon the caste system that constitutes the foundation of Indian culture and civilization. The rates vary by the castes. Brahmans receive loans on an interest rate of 20 percent whereas for Vaishyas it goes up to 48 and for Sudras up to 60 percent (Satyarthi, 1968). Sen (1910) attributes the change of rates by caste, time and circumstances to the nature of Hinduism and adds that some of the scripts view the interest as the cost of risk associated with the use of the money. For this reason, higher rates were applied to loans provided for the members of lower castes because they would bear greater risks. Due to the economic inequality generated by the socio-cultural structure, interest rates that applied to the loans for members of different castes including monks, soldiers, merchants and peasants were different (Mukerji, 1958).

The final part of this research is focused on the approach upheld by Buddhism which had close interactions with Hinduism. In the economic climate of a typical agricultural style, the society was divided into castes. In many respects, this system was determinative in different departments of life including interest-bearing debts. Usury was often associated with negative connotations and viewed as a profession that generated immorality and injustice for the society (Barua, 2015). However, despite this negative stance, usury made progress as a line of business that affected the economic life and development. In early times, the upper castes were not allowed to charge interest; but they were allowed to pay (Rapson, 1922). Over the time, loans on interest attracted attention because they were viewed risk-free/low-risk money-making methods. In particular, rich/wealthy people showed growing interest in this business. As a result, everyone was allowed to practice usury provided that they change their caste.

Usury was not ethically endorsed in the society; but it became widespread because there was no alternative method of offering loans. The state

authorities, however, took measures in an attempt to take the practice under control. Certain restrictions were implemented as part of this intervention. Maximum interest rate was set as 24 percent for clerics, 36 percent for the soldier, 48 percent for the merchants and 60 percent for the workers (Jain, 1929). The rates were determined by consideration of the risk factors associated with the different social castes.

On the other hand, the Buddhist doctrine which views the world as a venue of suffering takes the interest-bearing debts within the context of social utility rather than economic revenue and profit (Elster, 1985). One of the arguments offered by the doctrine is that desire for possession would not end the misery and agony and that the spiritual needs should be fulfilled for a contempt life. Addiction to welfare and prosperity only offers temporal pleasures; but in the long term, it leads to enslavement of the people. For this reason, consumption should be minimized (Payutto, 1992). The ambitions to earn more lead to grievances and sufferings. What matters in Buddhist culture is to lead a moral and wise life. The doctrine that divides the economic thought into two strands (micro and macro) relies on propositions referring to political methods in order to respond to major problems such as injustice and poverty (Ritthithit, Leeka, Tongpan & Srisaard, 2017). But the plausibility and practicality of these propositions remain controversial in modern times.

In times when the Buddhist doctrine maintain reign in Indian peninsula, interest was not freely permissible; but no strong opposition to the practice of interest was not staged as well. Like other ancient civilizations, the Buddhist doctrine developed legal arguments that applied to the interest. However, in most cases, these arguments remained ineffective and irrelevant because of the clashes between moral values and market realities. For this reason, the legal attempts to regulate the domain of interest-bearing debt transactions failed to offer permanent solutions and settlements.

## **Conclusion**

Use of water in Mesopotamia introduced radical transformations in the course of the history of men, particularly in the economic and social life. Water contributed to the arrival of agricultural revolution which then led to the emergence of urban areas that hosted people of art, military profession, civil service and clergy. The need of these classes for food was often met with agricultural production which reshaped the social and economic transactions. With the invention of script, legal rules were made to regulate and govern the political and economic affairs of the people. Interest-bearing debts were one of the issues that the legal systems sought to regulate. Nobles and politicians received loans for luxury consumption whereas farmers and local people needed money for consumption and the traders needed to finance their commercial activities. Because most loans on interest were used

for consumption purposes, the practice of interest led to serious problems including debt slavery.

Clerics, interestingly, were the most popular suppliers of the interest-based loans in ancient civilizations. The temples, holding the economic activities under their control, were the greatest economic actors in this period. Owing to their unique advantage in economic affairs, the temples have become powerful components of the social order, so much powerful that they were defiant of the authority of the state. The temples in ancient Mesopotamia and Greece were particularly specialized in providing interest-based loans. Political authorities were not involved in interest-bearing debts which was fairly exclusive to the temples whose policies and action often led to serious social problems. They had to consider the repercussions of these actions; in most cases, they attempted to introduce measures, not because of moral reasons, but because of practical necessities. The measures sought to curb the negative effects of interest-bearing debts and included palliative solutions; the policies and measures were of diverse nature; however, because no alternative model was developed, these measures failed to properly address the problems the general public encountered in relation to interest.

The ancient civilizations including those of the Sumerians, Babylonians and Egyptians and the Roman empire and Ancient Greece did not view interest as a moral issue. In some instances, the temples did not hesitate to act on behalf of gods in an attempt to justify the practice of interest, arguing that it was part of the wills of gods. The politicians also did not pay any attention to the moral dimension of the issue; their only concern was to protect the political order and address any issues that would lead to social unrest. In cases of popular uprisings, the rulers introduced partial reforms which often failed.

On the other hand, Ancient China and India paid attention to the moral side of the interest issue. Clerics and thinkers in these regions offered arguments against the practice of interest and condemned the interest-bearing debt transactions as well as those who make revenues out of these activities. However, the religious scripts of these civilizations did not have any references to sanctions applicable to loans on interest. Instead, the scripts promoted good deeds and wise action rather than absolute prohibition of the interest. Over the time, on the other hand, the interest-based loans were justified by the clerics who have gone a process of transformation in terms of mindset. The justifications were mostly associated with the changing economic circumstances; eventually, all social segments and classes were allowed to practice interest.

In conclusion, it is possible to argue that the ancient civilizations skipped the moral dimension of the interest issue; as long as it did not cause social unrest, the practice of interest has been tolerated; in cases where the use of interest led to serious social problems, political authorities attempted to offer solutions for the sake of political stability and social order. However, these

solutions seldom addressed the root cause of the problem. It now becomes evident that unless alternative financing sources and models are created, the issue of interest will remain and continue to destabilize the society and the economic order. The approach held by ancient civilizations vis-à-vis the issue of interest reveals that seeking solution in reference to legal and moral arguments will not properly address the question.

## Notes

- 1 Hammurabi, Esnunna, Urukagina, etc.
- 2 Known as *Fenus unciarium*.
- 3 It should be noted that some accounts in the literature suggest that *Lex Genucia* did not actually prohibit the practice of interest, but it banned compound interest and the institution of debt slavery.

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